

# Audit



# Report

OFFICE OF THE INSPECTOR GENERAL

**MAJOR DEFICIENCIES PREVENTING FAVORABLE  
AUDIT OPINIONS ON THE FY 1996 DOD GENERAL  
FUND FINANCIAL STATEMENTS**

Report No. 97-225

September 30, 1997

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**Department of Defense**

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### **Acronyms**

CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officers
DJAS	Defense Joint Accounting System
DFAS	Defense Finance and Accounting Service
FEDGAAP	Federal Generally Accepted Accounting Principles
FFMIA	Federal Financial Management Improvement Act
GAO	General Accounting Office
IG	Inspector General
OMB	Office of Management and Budget
SABRS	Standard Accounting, Budgeting, and Reporting System
SFFAS	Statement of Federal Financial Accounting Standards
STARS	Standard Accounting and Reporting System
USD(C)	Under Secretary of Defense (Comptroller)



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884**



September 30, 1997

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
COMMANDER, U.S. ARMY CORPS OF ENGINEERS  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on Major Deficiencies Preventing Favorable Audit Opinions  
on the FY 1996 DoD General Fund Financial Statements  
(Report No. 97-225)**

We are providing this audit report for your information and use. It identifies and summarizes the major deficiencies that prevented favorable audit opinions on the FY 1996 DoD General Fund financial statements. It also identifies and summarizes actions taken or under way to correct these deficiencies.

We appreciate the courtesies extended to the audit staff. Questions about this audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-9175 (DSN 664-9175; e-mail: [rbird@DODIG.OSD.MIL](mailto:rbird@DODIG.OSD.MIL)); or Mr. John J. Vietor, Audit Project Manager, at (317) 542-3855 (DSN 699-3855; e-mail: [jvietor@DODIG.OSD.MIL](mailto:jvietor@DODIG.OSD.MIL)). The distribution of this report is listed in Appendix G. The audit team members are listed inside the back cover.

**Robert J. Lieberman  
Assistant Inspector General  
for Auditing**

## Office of the Inspector General, DoD

Report No. 97-225

Project No. 6FI-2023.01

September 30, 1997

### Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements

#### Executive Summary

**Introduction.** This report summarizes the major deficiencies that impede the ability of DoD to produce auditable General Fund financial statements. This report gives Congress, the Secretary of Defense, the DoD Chief Financial Officer, financial managers, and the audit community an assessment of progress made toward attaining auditable financial statements for DoD General Funds. In FY 1996, DoD prepared and submitted for audit General Fund financial statements for the Army; the Navy; the Air Force; and the U.S. Army Corps of Engineers, Civil Works Program. These financial statements contained \$192.1 billion in revenues and \$1 trillion in assets. The Service audit agencies rendered disclaimers of opinion on the FY 1996 DoD General Fund financial statements, and the Inspector General, DoD, endorsed these disclaimers. This is the third annual report concerning deficiencies preventing favorable audit opinions on DoD General Fund financial statements.

**Audit Objectives.** The audit objectives were to identify and summarize the major deficiencies that prevented favorable audit opinions on the FY 1996 DoD General Fund financial statements, and to identify the actions taken or under way to correct these deficiencies.

**Audit Results.** Auditors identified several major deficiencies that prevented them from rendering favorable audit opinions on the FY 1996 DoD General Fund financial statements. Although progress has been made toward achieving compliant accounting systems, the overarching deficiency continues to be the lack of compliant accounting systems for compiling accurate and reliable financial data. A lack of compliant accounting systems, and the associated adverse effects, have long been an impediment to favorable audit opinions on the DoD General Fund financial statements. Specifically, although auditors recommended \$202 billion in adjustments, they were unable to render favorable audit opinions on the FY 1996 General Fund financial statements prepared for the Army; the Navy; the Air Force; and the U.S. Army Corps of Engineers, Civil Works Program, because the existing accounting systems:

- o did not contain audit trails;
- o could not support amounts for several assets, liabilities, and expenses; and



- o produced unreliable financial data.

Poor internal controls added to the problems with accounting systems. The Service audit agencies were not able to apply other auditing procedures to satisfy themselves as to the fairness of the data presented in the FY 1996 DoD General Fund financial statements. Auditors have consistently been disclaiming audit opinions on the DoD General Fund financial statements since FY 1992.

DoD financial managers have candidly acknowledged significant long-standing problems with financial data and have been attempting corrective actions for several years to improve the data used to compile the DoD General Fund financial statements. Some progress is being made in correcting deficiencies in the DoD General Fund accounting systems. The Defense Finance and Accounting Service (DFAS) continues to strive for compliant general fund accounting systems. The current DFAS Strategic Plan estimates that compliant general fund accounting systems will be in place by FY 2003. The U.S. Army Corps of Engineers is currently deploying a new accounting system that is supposed to be compliant. This system is expected to be deployed throughout the U.S. Army Corps of Engineers during FY 1998. A favorable audit opinion on the financial statements of the U.S. Army Corps of Engineers, Civil Works Program, may be possible as early as FY 1998 or FY 1999. However, those statements account for only 4 percent of total DoD General Fund assets and revenues.

Until integrated, double-entry, transaction-driven general ledger accounting systems are developed and implemented for DoD General Fund accounting and adequate audit trails exist, neither management nor auditors will be able to obtain sufficient evidence to satisfy themselves as to the fairness of the financial statements. This significant limitation on the audit scope is the primary factor preventing favorable audit opinions on DoD General Fund financial statements.

In addition to correcting deficiencies in accounting systems, DoD has taken numerous actions to achieve more effective financial controls and produce more reliable financial information. Also, successful DoD implementation of the Statements of Federal Financial Accounting Standards and Concepts and the "Federal Financial Management Improvement Act of 1996" may help to eliminate some major deficiencies preventing favorable audit opinions on the DoD General Fund financial statements. In addition, future financial statements will be improved by making adjustments recommended by the auditors to clarify presentation of financial data.

This summary report contains no recommendations because the needed recommendations were made in other audit reports. This report is intended to help the Congress and DoD officials assess progress toward successful implementation of the Chief Financial Officers Act and subsequent legislation and the preparation of auditable General Fund financial statements.

**Management Comments.** We issued a draft of this report on June 30, 1997, which contained no recommendations subject to resolution under DoD Directive 7650.3. Therefore, management comments were not required.

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## **Part I - Audit Results**

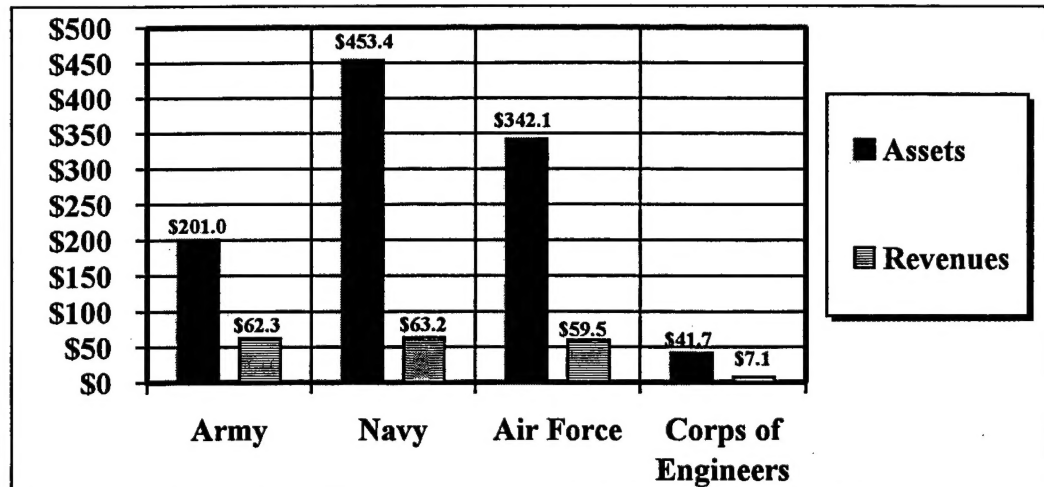
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## **Audit Background**

**Public Law.** Public Law 101-576, the "Chief Financial Officers (CFO) Act of 1990," November 15, 1990, requires the annual preparation and audit of financial statements for trust funds, revolving funds, and substantial commercial activities of Executive departments. The CFO Act requires the Inspector General (IG), DoD, or appointed external auditors, to audit the financial statements in accordance with generally accepted Government auditing standards and other standards established by the Office of Management and Budget (OMB). The IG, DoD, and the auditors of the Military Departments, under the cognizance of the IG, DoD, conduct these audits within DoD. Public Law 103-356, the "Government Management Reform Act of 1994," October 13, 1994, requires DoD to prepare and submit to the Director, OMB, an audited financial statement for the preceding fiscal year for each DoD office, bureau, and activity.

**Magnitude of Assets.** In FY 1996, the Defense Finance and Accounting Service (DFAS) prepared DoD General Fund financial statements for the Army; the Navy; the Air Force; and the U.S. Army Corps of Engineers, Civil Works Program (the Corps). These financial statements included assets of more than \$1 trillion and revenues of more than \$192.1 billion. The figure below shows the magnitude of the assets and revenues contained in FY 1996 DoD financial statements.

**Table 1. FY 1996 Assets and Revenues for the Army, the Navy, the Air Force, and the U.S. Army Corps of Engineers, Civil Works Program (Billions)**



Appendix D summarizes financial data from the FY 1996 DoD General Fund financial statements.

**Audit Opinions.** The objective of a financial statement audit by an independent auditor is to render an audit opinion. The opinion is based on the auditor's determination of whether or not the financial statements present fairly, in all material respects, the financial position, results of operations, and the cash flows of the audited organization. The audit includes a review of conformity with generally accepted accounting principles. Auditors use the audit report to render an audit opinion or, if required, to disclaim an opinion. Auditors can render three types of audit opinions.

- o An unqualified opinion states that the financial statements are fairly presented.
- o A qualified opinion states that, except for stated qualifications, the financial statements are fairly presented.
- o An adverse opinion states that the financial statements are not fairly presented.

When auditors cannot conduct an audit, they issue a disclaimer of opinion. A disclaimer states that the auditor is not rendering an opinion on the financial statements. A disclaimer is appropriate when auditors have not performed an audit sufficient in scope to allow them to form an opinion on the financial

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statements. Restrictions on the scope of an audit, whether imposed by the client or by circumstances, may result from limitations on the timing of work, the inability to obtain sufficient evidence, or the inadequacy of accounting records.

**Previous Financial Statement Audits of DoD General Funds.** Financial statement audits of DoD General Funds have been performed since FY 1992. Auditors have rendered disclaimers of opinion on all DoD General Fund financial statements since that date, and the IG, DoD, has endorsed these disclaimers.

**Army General Fund Financial Statements.** The General Accounting Office (GAO) disclaimed opinions on the FYs 1991 and 1992 Army General Fund financial statements. The Army Audit Agency disclaimed opinions on the FYs 1993 through 1996 financial statements.

**Air Force General Fund Financial Statements.** The GAO disclaimed opinions on the FYs 1988 and 1989 Air Force General Fund financial statements. The Air Force Audit Agency disclaimed opinions on the FYs 1992 through 1996 financial statements.

**U.S. Army Corps of Engineers, Civil Works Program.** The financial statements of the Corps were audited by the GAO in FYs 1991 and 1992 and by the Army Audit Agency in FY 1993 as part of the Army General Fund financial statements. Opinions were disclaimed in each of those years. Beginning in FY 1994, DoD required separate financial statements and a separate audit opinion for the Corps. The Army Audit Agency disclaimed opinions on the FYs 1994 and 1996 Corps Statement of Operations and Changes in Net Position. The Army Audit Agency did not attempt to render an opinion on the FY 1995 financial statements of the Corps.

**Navy General Fund Financial Statements.** In FY 1996, the Naval Audit Service conducted its first audit of the Navy General Fund financial statements. As a result of this audit, the Naval Audit Service disclaimed an opinion on the FY 1996 Navy General Fund Statement of Financial Position.

See Appendix C for a list of audit reports that have been issued for FYs 1993 through 1996 on the DoD General Fund financial statements.

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## **Audit Objectives**

The objectives of the audit were to identify and summarize the major deficiencies that prevented favorable audit opinions on the FY 1996 DoD General Fund financial statements, and to identify the actions taken or under way to correct these deficiencies. See Appendix A for a discussion of the audit process, and Appendix B for a summary of prior audit coverage related to the audit objective.



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## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

Auditors continue to identify and report numerous long-standing deficiencies preventing them from rendering favorable audit opinions on the FY 1996 DoD General Fund financial statements, which contain \$192.1 billion in revenues and \$1 trillion in assets. DoD has made progress toward achieving compliant accounting systems; however, since 1992, auditors have consistently disclaimed opinions on all General Fund financial statements prepared for the Army; the Navy; the Air Force; and the U.S. Army Corps of Engineers, Civil Works Program. In FY 1996, although auditors recommended \$202 billion in adjustments, they were unable to render favorable audit opinions on FY 1996 DoD General Fund financial statements. Noncompliant accounting systems and the associated insufficient audit trails were the major deficiencies reported by auditors as reasons for disclaimers of opinion on the FY 1996 DoD General Fund financial statements. This finding summarizes those deficiencies and discusses the actions taken or under way to correct them.

### **Reasons for Disclaimer**

Accounting systems supporting DoD General Funds do not have integrated, double-entry, transaction-driven general ledgers to compile and report reliable and auditable information. The information is not auditable because the accounting systems do not produce an audit trail of information from the occurrence of a transaction through its recognition in accounting records and ultimately to the general fund financial systems. Because of the accounting systems' inadequacies, auditors have not been able to obtain sufficient evidence or apply other auditing procedures to satisfy themselves as to the fairness of the financial statements. Until accounting systems with integrated, double-entry, transaction-driven general ledgers are developed to compile and report information, auditors will be unable to determine whether valid transactions are properly recorded, processed, and summarized. This is a significant long-standing scope limitation that will likely continue to cause auditors to disclaim opinions on the DoD General Fund financial statements.

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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**Army General Fund.** The auditors were unable to render a favorable opinion on the FY 1996 Army General Fund financial statements. The main reasons for the disclaimer of opinion were noncompliant accounting systems, insufficient audit trails, and unreliable amounts for several types of assets, liabilities, and expenses. Auditors were unable to apply other auditing procedures in these areas to satisfy themselves as to the fairness of the data presented. A brief discussion of each of the main reasons for disclaimers follows.

**Accounting Systems.** Deficiencies in the Army accounting systems are the major reason auditors were unable to render a favorable audit opinion. The eight accounting systems and the feeder systems that interface with the accounting systems (such as the Army logistics and contracting systems) were not designed for financial statement reporting; therefore, these systems do not produce reliable and auditable financial data. DFAS owns and operates most of the systems used to account for the Army resources. DFAS is working on new accounting systems intended to resolve accounting system deficiencies. However, the new accounting systems probably will not be available until after 2000.

**Asset Valuation.** As in prior years, auditors found that the Army financial statements accurately reflected the total for Fund Balance With Treasury (\$31.2 billion for FY 1996) as reported by the Department of the Treasury. Because the amount reported included the erroneous Army Suspense Account balance, which could not be reconciled at the transaction level, neither auditors nor the DFAS Indianapolis Center could verify the correct balance for the Army's FY 1996 Non-Entity Assets, Fund Balance With Treasury. Auditors also found that the reported quantities of fixed assets were generally accurate. However, the processes used to collect, classify, and value data on fixed assets (to translate data on quantities of assets into reported dollar values) did not produce reliable and auditable values in the Statement of Financial Position. The most significant problems reported are described in the following paragraphs.

**Inventory, Net.** The reported value for Inventory, Net, (\$37.7 billion for FY 1996) was misstated because the assets were not properly valued. Holding gains and losses were not recognized, asset prices were not current, and categories used for asset stockage were misstated. This line consisted mostly of assets that do not appear to meet the definition of Inventory. Instead, these assets should probably be reported as Property, Plant, and Equipment or separately as War Reserves.

**Property, Plant, and Equipment, Net.** Auditors were unable to attest to the reported value for Property, Plant, and Equipment, Net (\$124.9 billion for FY 1996) because the following subelements were misstated.

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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**Military Equipment.** The reported value for Military Equipment (\$80.9 billion) was misstated. The physical accountability for equipment appeared adequate, but the prices used to value this equipment were not current. Further, some unit equipment reports were not accurate or complete, and most reports were not based on DoD thresholds for reporting assets. The reported value for Military Equipment was also misstated because the contractor reports, used to account for equipment held by contractors, were not complete or accurate.

**Real Property.** The reported value (\$27.5 billion) for real property (land, structures, facilities, and leasehold improvements) was misstated because Army and DoD reporting guidance was not clear and was not consistently implemented. Furthermore, real property assets were understated because the Army financial interest in State National Guard facilities was not recorded as an asset.

**Construction in Progress.** The reported value for Construction in Progress (\$9.6 billion) was misstated because the portion pertaining to Government-Furnished Material (\$3.3 billion) was based on contractor reports that were not accurate or complete, and the amount reported for Army National Guard Construction in Progress (\$1.7 billion) included an amount for completed projects.

**Other Entity Assets.** The reported value for other entity assets (\$5.5 billion for FY 1996) was misstated because it was derived from contractor reports that were not complete or accurate. Values also included large amounts for equipment items that did not belong to the Army or were otherwise already accounted for.

**Reporting Liabilities.** By recognizing liabilities in its FY 1996 financial statements that had previously been disclosed only in footnotes, the Army made significant progress in reporting its actual liabilities. However, systems, procedural, and policy problems prevented auditors from attesting to the reported \$3.9 billion for Accounts Payable, and also for \$17.9 billion of contingent and other liabilities. Auditors anticipate additional progress in the near term on contingent and other liabilities, but the problems with Accounts Payable will take longer to resolve. Major problems are discussed below.

**Accounts Payable.** The reported balances of Accounts Payable covered by budgetary resources for Federal and non-Federal entities (\$3.9 billion for FY 1996) were not reliable, and existing accounting systems and procedures prevented the determination of reliable values for these accounts. Existing accounting systems did not incorporate adequate accrual accounting processes and did not provide adequate subsidiary ledgers for Accounts Payable. For year-end unpaid invoices on DoD-administered Army contracts and for holdbacks on progress payments, Accounts Payable were not

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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recorded when goods or services were received. Further, the DFAS Indianapolis Center made an unreconciled \$24.4 billion corporate-level adjustment to Accounts Payable in the Army general ledger to make the general ledger amount equal the amount in the status of funds system.

**Other Liabilities.** The Army recognized over \$15 billion in other liabilities not previously recognized -- a major improvement over prior years. The \$15 billion of recognized liabilities included environmental liabilities such as \$7.9 billion for installation environmental restoration requirements; \$5.3 billion for Formerly Used Defense Sites Program requirements; \$283.3 million for low-level radioactive waste disposal requirements; and \$157.2 million for environmental compliance requirements. However, not all reportable liabilities have been identified and properly valued. For example, qualifying contingencies related to travel and transportation of personnel and possible liabilities under the Occupational Safety and Health Act and the Americans with Disabilities Act were not recognized or disclosed. Consequently, auditors could not attest to the reliability of the contingent and other liabilities presented in the Army statements.

**Reporting Expenses.** Prior audits showed that the accounting systems did not produce transaction sets (subsidiary ledgers) showing the detailed transactions that make up the summary numbers reported for expenses in the Army financial statements. Therefore, auditors did not attempt to audit the \$64.7 billion of expenses reported in the Army FY 1996 financial statements. Auditors have recommended that the Army accounting systems be modified to remedy this problem. DFAS, as owner and operator of the Army primary accounting systems, acknowledged the deficiency. However, DFAS is working on new accounting systems to replace those currently in use, and has decided to invest available resources in the new systems. As a result, the existing accounting systems will not be changed, and this problem will not be resolved until the new accounting systems are fielded.

**Army General Fund Summary.** The Army continues to have major problems with financial reporting. The most significant of those problems, noncompliant accounting systems, severely limited the audit scope and caused auditors to disclaim an opinion on the FY 1996 Army General Fund financial statements.

**Navy General Fund.** Auditors were unable to render an opinion on the FY 1996 Navy General Fund Statement of Financial Position. The primary reason for the disclaimer of opinion was that the Navy did not have transaction-driven standard general ledger accounting systems that could accurately report the value of assets and liabilities, including the status of appropriated funds. There were no subsidiary ledgers supporting the financial balance, although

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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subsidiary ledgers are necessary for maintaining accurate financial records and providing an audit trail. The main reasons for the disclaimers are discussed below.

**Reporting Assets.** The Navy could not accurately report several assets on the FY 1996 Navy General Fund Statement of Financial Position. Reporting details on the Navy assets follow.

**Fund Balance With Treasury.** The DFAS Cleveland Center, Cleveland, Ohio, did not accurately report \$64.2 billion of Fund Balance with Treasury assets. The DFAS Cleveland Center did not clear all of the Navy budget clearing and suspense holding account balances at year-end. In addition, the DFAS Cleveland Center did not accurately report budget clearing, deposit, and suspense account balances. The budget clearing account is used to report receipts for which the proper account cannot be determined; the deposit and suspense accounts are holding accounts for transactions that require future actions. The Navy reported a negative balance of \$572 million for the transactions, but because these are holding accounts, the balances should not be negative. The DFAS made \$1.1 billion of adjustments to Navy accounting records using Department of the Treasury data without sufficient supporting DoD documentation. Consequently, the Navy did not have reasonable assurance that cross-disbursements were valid. This occurred because Army, Air Force, and non-DoD agencies did not provide the DFAS Cleveland Center with corresponding source documentation for cross-disbursements.

**Accounts Receivable, Net, Federal and Non-Federal.** The actual amount of Accounts Receivable assets could not be verified, and there was no assurance that the amounts reported in the Statement of Financial Position actually represented funds due. Of the \$6.4 billion balance reported as Accounts Receivable, Net, Federal and Non-Federal, about \$2.1 billion was misclassified, \$917 million was unsupported, and \$299 million was invalid.

**Advances and Prepayments, Non-Federal.** The Navy understated the Advances and Prepayments, Non-Federal (progress payments) account balance because payments from several appropriation accounts were omitted. These understatements occurred in part because the Navy lacked an integrated general ledger system and failed to address these payments in the process used to retrieve data. Consequently, auditors could not determine the value of the understatements. Auditors also found that all payments attributed to ships and craft under construction, which included \$19.9 billion from the Shipbuilding and Conversion, Procurement, appropriation, were presented as Advances and Prepayments, Non-Federal. However, only a portion of these payments should have been presented as Advances and Prepayments, Non-Federal. Auditors could not determine the extent of the overstatement because sufficient documentation was lacking.

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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**Inventory, Net.** Incorrect unit prices for some items of ammunition in the Conventional Ammunition Integrated Management System caused reporting of at least \$3.7 billion in overstatements and \$554 million in understatements. Unit prices were not established in a consistent manner and were not updated. Furthermore, since unit price records for many other items were incomplete, auditors could not determine their correct value. In addition, the FY 1996 Inventory, Net, amount was understated by the dollar value of ammunition in-transit material (ammunition being moved between storage locations). This occurred because the logistics system that the Navy used to report ammunition values for financial reporting did not include in-transit material. Although auditors determined that \$4 billion was the reported balance in the logistics system as of September 30, 1996, they could not attest to the accuracy or completeness of that amount. This was because personnel at the Naval Ordnance Center did not implement effective procedures for resolving untimely postings and correcting receipt and issue errors. Consequently, auditors could not determine how much of the \$4 billion represented actual in-transit material versus errors.

**Property, Plant, and Equipment, Net.** The Navy Military Equipment balance for Property, Plant, and Equipment, Net, contained \$23.2 billion in understatements and \$3.1 billion in overstatements on the FY 1996 Statement of Financial Position. This was caused by the absence of an integrated accounting system and an inadequate process for retrieving data. Auditors initially identified and reported to the Navy \$35.2 billion in inappropriate omissions from the FY 1996 Statement of Financial Position. The Navy corrected \$12 billion of the omissions, but the remaining \$23.2 billion of omissions was not corrected. As a result, the FY 1996 Statement of Financial Position was understated by a net amount of \$20.1 billion. In addition, the Navy overstated Construction in Progress in the FY 1996 Statement of Financial Position by at least \$321.7 million. The Navy did not correctly transfer the cost of completed buildings and structures from the Construction in Progress account to a capital asset account. Also, some completed construction projects that were transferred to a capital asset account were not removed from the Construction in Progress account, resulting in double counting.

Finally, on the FY 1996 Statement of Financial Position, the Navy reported \$32.7 billion in Government Property Held by Contractors that was not supported by accurate and complete accounting data. Because an accounting system did not exist for Government Property Held by Contractors, the Navy used the DoD Contract Property Management System as the source for reporting. However, auditors determined that numerous data problems existed with that system -- the data included many balances that did not agree with source documents and did not include the unit prices of all property. The database also included improper items, such as foreign-owned and contractor-owned property. Auditors did not determine specific understatements and



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overstatements. However, auditors noted that the FY 1996 Contract Property Management System contained at least \$2.1 billion of aircraft that the Naval Air Systems Command also reported on the FY 1996 Statement of Financial Position.

**Supply System Inventory Report.** Navy personnel followed verbal guidance from the Office of the Under Secretary of Defense (Comptroller) (USD[C]) and used the Supply System Inventory Report as the source for Inventory balances on the FY 1996 Statement of Financial Position. As a result, the Inventory, Net, balance on the FY 1996 Statement of Financial Position, reported as \$41.4 billion, was not accurate. Further, because the Supply System Inventory Report was not timely, FY 1995 rather than FY 1996 figures were used, resulting in an unauditable balance. However, even if the FY 1996 figures had been available, the sources used to develop values had major deficiencies. For example, the ammunition value reported on the FY 1996 Statement of Financial Position contained material omissions amounting to at least \$20.4 billion and improper inclusions totaling at least \$11.6 billion.

**Operating Materials and Supplies, Net.** The Navy did not report an estimated \$7.8 billion in Operating Materials and Supplies, Net, items aboard ships and with the Marine Corps. This represents an understatement. This occurred because Navy personnel followed erroneous guidance from the USD(C) that required expensing Operating Materials and Supplies, Net, items when issued to the end user, and DoD included combat ships and troop units as end users.

**Reporting Liabilities.** The Navy could not accurately report liabilities on the FY 1996 Navy General Fund Statement of Financial Position. Reporting details on the Navy liabilities follow.

**Accounts Payable, Non-Federal.** The \$298.6 million of Accounts Payable and \$1.7 billion of Undelivered Orders reported on the FY 1996 Statement of Financial Position were inaccurate. Because of the absence of an integrated general ledger system, the DFAS Cleveland Center's method of estimating Accounts Payable could not produce the needed information, and the information produced was not supportable. Accounts Payable associated with major contracts was not accurately recorded in the Navy FY 1996 Statement of Financial Position. The Mechanization of Contract Administration Services system used to make contractor payments does not interface with the financial systems used to produce the Navy financial statements. As a result, the Accounts Payable balance for seven appropriations involving major contracts was determined by using information from three system-generated Accrued Expenditure Reports. The DFAS Cleveland Center



## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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reformatted the data in the reports and selectively used \$1.2 billion of the negative \$4.1 billion reported in the Accrued Expenditure Reports for the seven appropriations.

**Accrued Payroll and Benefits, Non-Federal.** The Navy understated Accrued Payroll and Benefits, Non-Federal, by about \$1.1 billion. Specific accounts for accruing payroll and benefit costs either did not exist or were limited to statistical and budgetary accounts maintained for informational purposes. Of the \$1.1 billion, nearly \$1 billion was misclassified as Accounts Payable on the Statement of Financial Position.

**Environmental Cleanup Liabilities.** The Navy did not recognize projected environmental cleanup costs of \$7.1 billion as an actual liability on the FY 1996 Statement of Financial Position. Instead, the costs were disclosed as potential liabilities in footnotes to the financial statements. This occurred because Navy personnel followed erroneous guidance from the USD(C) that required environmental cleanup costs to be disclosed only in the footnotes. However, OMB Bulletin No. 94-01, the "OMB Guidance on Form and Content of Agency Financial Statements," November 29, 1993, requires that probable loss contingencies be recognized on financial statements in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Contingencies."

**Contingent Legal Liabilities.** The Navy did not recognize or disclose potential legal liabilities on the FY 1996 Statement of Financial Position. While auditors could not determine the value that should be reported for such liabilities, they believe these liabilities could total as much as \$6 billion.

**Navy General Fund Summary.** The FY 1996 Navy General Fund Statement of Financial Position contained significant understatements and overstatements. Procedural and compliance problems also contributed to the lack of accurate financial reporting.

**Air Force General Fund.** Auditors could not obtain sufficient evidential matter or apply other auditing procedures to satisfy themselves as to the fairness of the Air Force consolidated financial statements. As a result, they could not render an opinion on the reliability of the FY 1996 Air Force financial statements. The financial systems and processes, as well as the associated internal control structure, were not adequate to produce reliable financial information. Auditors found overstatements of \$1.3 billion and understatements of \$983.8 million. As in previous years, account balances continued to exclude some assets. Also, because of system problems, document retention practices, and the lack of a transaction-driven general ledger, auditors could not verify the acquisition cost of assets, valued at \$282 billion.

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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In addition, the Government-Furnished Property balance reported by the DFAS Denver Center, Denver, Colorado, in the FY 1996 Air Force consolidated financial statements was \$21.4 billion less than the values that contractors reported to the Defense Logistics Agency for inclusion in the Contractor Property Management System. Also, in the data submitted to the DFAS Denver Center, the Air Force had overstated the value of munitions by \$852.7 million. In addition, several conditions that caused auditors to disclaim opinions on the FYs 1992 through 1995 financial statements still existed. Prior reports on the Air Force financial statements have identified a number of conditions that prevented auditors from rendering opinions on the reliability of those financial statements. In the FY 1996 audit, the following conditions still existed.

- o The Air Force did not have a transaction-driven general ledger.
- o Existing accounting systems could not produce auditable financial statements.
- o The financial statements did not accurately report equipment and inventories, including contractor-held Air Force property.
- o The financial statements did not report acquisition costs for most assets.
- o Accounting personnel did not properly account for progress payments.

Auditors found significant conditions that adversely impacted four of the five management assertions defined by generally accepted Government auditing standards. The conditions were related to management assertions about valuation or allocation, existence or occurrence, completeness, and presentation and disclosure. Nothing came to the auditors' attention indicating significant conditions related to the management assertion of rights and obligations. The following are details of the conditions that affected management assertions.

**Valuation or Allocation.** Auditors identified several conditions related to the appropriateness of amounts included in the financial statements for asset, liability, revenue, and expense accounts. For example, in the data submitted to the DFAS Denver Center for inclusion in the consolidated financial statements, the Air Force overstated munitions values by \$852.7 million, primarily because of problems with systems interfaces and data reconciliations. The Air Force also provided the DFAS Denver Center with incorrect valuation data on Military Equipment. The data involved aircraft modification costs and a satellite.

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**Existence or Occurrence.** Auditors identified several significant conditions related to whether all assets and liabilities included in the financial statements as of September 30, 1996, existed at that date, and whether all recorded transactions had occurred within the fiscal year ending on that date. For example, over \$94.8 million of Accounts Receivable, Accounts Payable, Operating Expenses, and unexpired appropriations were either invalid, inadequately supported, or inaccurate. In addition, accounting personnel did not research unmatched progress payment transactions to determine their validity, did not assess the impact of these transactions on the accuracy of general ledger accounts, and did not report the unmatched transactions to the DFAS Denver Center. As a result, auditors identified unmatched payments of \$147.6 million and unmatched recoupments of \$196.3 million.

**Completeness.** Auditors identified several significant conditions concerning the completeness of data included in the FY 1996 Air Force financial statements.

**Negative Unliquidated Obligations.** Despite DFAS and Air Force actions to identify, report, correct, and obligate negative unliquidated obligation transactions, negative unliquidated obligations remain a serious problem. On September 30, 1996, the DFAS Denver Center reported \$594 million in negative unliquidated obligations, an 8-percent increase for the year. Also, at seven of nine locations, reports to the DFAS Denver Center were understated by \$47 million. This condition occurred because accounting office personnel did not post all disbursements, did not report selected transactions, and were unaware of the requirement that negative unliquidated obligations must be reported when progress payments exceed the unliquidated obligations at the contract level.

**Capital Leases.** Air Force bases did not report, and DFAS accounting personnel did not record, three leases according to the criteria in SFFAS No. 5, "Accounting for Liabilities of the Federal Government," and DoD 7000.14-R, the "DoD Financial Management Regulation," volume 4, "Accounting Policies and Procedures," January 11, 1995. Auditors estimated that these errors caused Real Property to be understated by approximately \$114 million of the \$3.2 billion reviewed.

**Construction in Progress.** Personnel at 7 of 11 bases did not report to DFAS the value of actual outstanding capitalizable work or project orders for inclusion in the financial statements. Civil engineers and DFAS Denver Center personnel had not established a procedure to periodically reconcile the general ledger with civil engineers' records of work-in-progress, resulting in misstatements that totaled \$129.4 million.

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**Canceled Appropriations.** Accounting personnel at the five Defense Accounting Offices did not report recoupments of \$3.7 billion and outstanding progress payments of \$557.1 million disbursed from active appropriations that were subsequently canceled. DFAS personnel could not explain the large number of recoupment transactions, and DFAS did not research and clear these transactions or determine their impact on the general ledger account. As a result, significant information was omitted from the financial statements.

**Progress Payment Holdbacks.** Accounting personnel at the DFAS Denver Center did not accurately report accrued payable amounts withheld by contracting officers under contract provisions for progress payments. Accounts Payable were understated by more than \$650 million, but the information available was not reliable enough for auditors to determine the exact amount.

**Government-Furnished Property.** Auditors could not confirm the accuracy of Government-Furnished Property balances in the financial statements. This occurred because the Air Force does not have a system designed to record, track, and report Government property in the custody of contractors. Instead, the DFAS Denver Center derived Government-Furnished Property balances manually, by extracting partial data from automated systems that were designed for other purposes. As a result, the auditors, the Air Force, and the DFAS Denver Center could not accurately reconcile the \$21 billion difference between Government-Furnished Property reported in the financial statements and Government-Furnished Property reported in the Contractor Property Management System.

**Presentation and Disclosure.** Auditors identified significant conditions related to the classifications, descriptions, and disclosures in the financial statements. For example, the DFAS Denver Center incorrectly included \$36.5 billion of Operating Materials and Supplies on the Inventory, Net, line of the Statement of Financial Position of the Air Force consolidated financial statements. While DFAS and Air Force accounting records correctly accounted for these assets, the USD(C) directed that they be reported as Inventory. This method of reporting conflicts with the definitions of Inventory and Operating Materials and Supplies in SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, the DFAS Denver Center did not separately identify war reserve material in the financial statements, as required by the "DoD Guidance on Form and Content of Financial Statements for FY 1996 Financial Activity," October 1996. Footnote 8 to the financial statements stated that the DFAS Denver Center was unable to distinguish war reserve material from inventory. However, this inability to distinguish war reserve material from inventory occurred because DFAS did not request that Air Force organizations identify war reserve material separately.

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**Air Force Summary.** Material uncertainties exist regarding the reasonableness of amounts reported in the FY 1996 Air Force General Fund financial statements. Amounts reported on the statements, such as \$246 billion in Property, Plant, and Equipment and \$36.5 billion in Inventory, were assembled from separate information systems of uncertain reliability. Also, for most items, auditors were unable to verify account balances. Because of the unverifiable account balances and inadequate accounting systems, auditors could not render an opinion on the FY 1996 Air Force General Fund financial statements.

**U.S. Army Corps of Engineers, Civil Works Program.** The auditors were unable to express an opinion on the reliability of the FY 1996 Statement of Operations and Changes in Net Position because of weaknesses in the financial accounting systems and because poor methods were used to recognize and report revenues and expenses. Auditors were unable to apply other auditing procedures to satisfy themselves as to the fairness of the presentation of the FY 1996 Statement of Operations and Changes in Net Position. The main reasons for the disclaimer were as follows.

**Financial Management Systems.** The absence of an integrated accounting system prevented the Corps from asserting that data reported in the Statement of Operations and Changes in Net Position were reliable. Material uncertainties continued to exist regarding the reasonableness of reported amounts on the financial statements. The material uncertainties existed because the legacy financial system of the Corps (the Corps of Engineers Management Information System) has fundamental weaknesses that prevent the reporting of reliable financial information. Specifically, the system:

- o lacks revenue and expense accounts,
- o is not based on the U.S. Government Standard General Ledger,
- o does not have an accurate crosswalk,
- o is not integrated with other Corps systems, and
- o does not provide auditable transactions to support balances.

Auditors reported these inadequacies in previous audit reports. The Corps is aware of these problems and is fielding a new financial management system, the Corps of Engineers Financial Management System (CEFMS).

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**Financial Reporting.** Material uncertainties continued to exist regarding the reasonableness of amounts reported for most Corps revenues and expenses because the Corps reporting process for compiling and presenting the financial statements lacked audit trails, consistency, and full disclosure. As a result, the financial statements for FYs 1995 and 1996 did not accurately portray the results of operations or the financial position of the Corps.

**Accounting Policies.** Accounting policies used by the Corps for self-insurance, repairs and maintenance, asset disposals, and recognition of inflation-adjustments to plant replacement costs seriously distorted its revenues, expenses, and reported net position on the Statement of Operations. These policies also distorted the assets, liabilities, and equity reported on the Statement of Financial Position. As a result of the accounting policies used, the financial reporting of the results of operations was not accurately portrayed on the financial statements, and auditors recommended adjusting entries totaling \$223.2 million.

**The Corps Summary.** Because of weak financial systems and distorted accounting policies, auditors were unable to apply other auditing procedures to satisfy themselves as to the fairness of the presentation of the Statement of Operations and Changes in Net Position for FY 1996. Consequently, auditors could not express an opinion on the statement.

## **Corrective Actions Taken or Under Way**

DoD managers have candidly acknowledged the significant long-standing problems that prevent favorable audit opinions on DoD General Fund financial statements, and have been attempting corrective actions for many years. In response to financial statement audits and congressional and public concerns, DoD managers have begun numerous actions to address the reported problems. Management has begun and in some cases has completed the following actions to correct the long-standing major deficiencies:

- o DFAS progress towards implementing compliant general fund accounting systems;
- o other actions being taken to improve financial management and reporting; and
- o external factors affecting improvements in the preparation and audit of future financial statements of the DoD General Funds.



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**DFAS Progress Toward Implementing Compliant General Fund Accounting Systems.** DFAS has made progress in ensuring that accounting systems supporting DoD General Funds have integrated, double-entry, transaction-driven general ledgers to compile and report reliable and auditable information. Also, since August 1991, DFAS has been evaluating solutions to the problem of noncompliant general fund accounting systems. DFAS has begun to fix these systems. The following are examples of recent efforts by DFAS to fix general fund accounting systems. As these efforts progress and interim migratory accounting systems are developed and implemented, the newly implemented systems should improve financial management and enable auditors to render favorable audit opinions on DoD General Fund financial statements.

In April 1996, DFAS established the Defense Accounting System Program Management Office (the Program Management Office) to provide centralized management control and oversight for all migratory and interim migratory accounting systems substantially owned and operated by DFAS. The Program Management Office is not responsible for accounting systems owned and operated by the Military Departments. However, the Program Management Office is responsible for developing, and for disseminating to the Military Departments, accounting and financial reporting requirements for those systems. The objective is to field electronically linked accounting systems that comply with generally accepted Government accounting principles and standards, comply with the CFO Act, and produce complete and accurate accounting reports and general fund financial statements at the installation, command, Service, and Military Department level.

The current DFAS Accounting Systems Strategic Plan (also known as the General Funds Accounting System Strategy) was approved by the USD(C) on February 13, 1997. The Strategic Plan calls for reducing the number of DoD General Fund accounting systems from 41 as of September 30, 1996, to 3 by FY 2003. The USD(C) has determined that CEFMS is suitable for accounting and reporting requirements for both the Army and the Air Force. In May 1996, the USD(C) directed DFAS to proceed with developing CEFMS as the general fund migratory accounting system for customers of the DFAS Indianapolis Center, Indianapolis, Indiana. In July 1996, the DFAS Denver Center received permission from USD(C) to use CEFMS as the general fund migratory accounting system for DFAS Denver Center customers. However, the implementation of CEFMS by the Army and the Air Force will require modifications. At the direction of USD(C), CEFMS will serve as the baseline for the Defense Joint Accounting System (DJAS), a modified form of CEFMS. The development and implementation of the Standard Accounting and Reporting System (STARS) for Navy General Fund accounting and the Standard Accounting, Budgeting, and Reporting System (SABRS) for Marine Corps General Fund accounting are progressing and are scheduled for completion during FY 1998. See Table 2 for a brief overview of the migratory general



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fund accounting systems. A discussion of the migratory general fund accounting systems follows Table 2.

**Table 2. Deployment of Interim Migratory Accounting Systems for DoD General Funds**

Migratory Systems	Customer	Percentage Deployed	Deployment Date	Legacy Systems to Replace	Feeder Systems
DJAS	Army and Air Force	0	FY 2003	21	18
STARS	Navy	86	FY 1998	17	20
SABRS	Marine Corps	100	FY 1998	3	20
Totals				41	58

Source: DFAS Accounting Systems Strategic Plan for the DoD, February 13, 1997

In addition to deploying compliant interim migratory accounting systems, DFAS must ensure that the 58 DoD General Fund feeder systems, which interface with the interim migratory accounting systems, also compile and report reliable accounting data and maintain audit trails to source data. DoD will not be able to produce auditable DoD General Fund financial statements until all accounting data can be validated and audited to source documents.

**DJAS.** The DFAS solution to fixing the noncompliant accounting systems that compile the general fund financial statements for the Army and the Air Force is DJAS. DJAS is an accounting and management information system that has a core, general ledger, and funds control, supported by Accounts Payable, Accounts Receivable, paying and collecting, travel, and cost subsidiary ledgers for general fund reporting. DJAS will provide double-entry, transaction-based general ledgers; convert to the U.S. Government Standard General Ledger Chart of Accounts (as augmented by DoD); use the standard Budget and Accounting Classification Code (see Appendix E for a discussion of the Budget and Accounting Classification Code); and provide a general ledger for each appropriation. DJAS is attempting to address improvements to deficiencies identified by both users and auditors. When DJAS is completed, DoD should be able to meet its own accounting standards and those of the Department of the Treasury, the "Government Management

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Reform Act of 1994," the "Federal Managers' Financial Integrity Act of 1982," and the "Federal Financial Management Improvement Act of 1996" (FFMIA).

**STARS.** The DFAS solution to fixing the noncompliant accounting systems that compile the Navy General Fund financial statements is STARS. The system is the standardized financial management and accounting system that provides general accounting support for the Navy. STARS provides integrated accounting and disbursing functions, including funds distribution, budget execution, vendor and contract payments, proprietary accounting, and financial reporting. A Funds Distribution and Departmental Reporting module is being developed for general fund departmental reporting, including CFO reporting. This module will use the DoD Standard General Ledger. It will also be able to capture data at the lowest level, make data accessible at all levels, and allow journal vouchers in the general ledger to be updated on-line.

**SABRS.** The DFAS solution to fixing the noncompliant general fund reporting for Marine Corps activities is SABRS. The system provides integrated accounting, budgeting, and reporting for all Marine Corps appropriations. The system is being modified to comply with the key accounting requirements established by DFAS as part of the General Fund Interim Migratory Accounting Strategy. (See Appendix E for a description of the key accounting requirements).

DFAS has recognized that the lack of compliant accounting systems is a major obstacle preventing favorable audit opinions on DoD General Fund financial statements. DoD is making progress in correcting accounting system deficiencies to comply with the key accounting requirements. See Appendix F for details of the IG, DoD, prior audit of the DFAS initial efforts to use the Interim Migratory Accounting System Strategy to correct problems in DoD General Fund accounting. However, there is still much to accomplish before DoD accounting systems are fully capable of producing DoD General Fund financial statements that will allow auditors to render favorable audit opinions.

**Other Actions to Improve Financial Management and Reporting.** DoD has been striving to achieve more effective financial control and produce more reliable financial information. The following are examples of interim actions by the USD(C), DFAS, and the Military Departments.

**USD(C).** The USD(C) has begun a number of actions to improve financial reporting within DoD. Some of these actions are discussed below.

**Blueprint for Financial Management Reform.** The USD(C) has drawn up a blueprint to lead DoD in reforming its financial management. The blueprint includes the key goals of consolidating finance and accounting operations, consolidating finance and accounting systems, eliminating problem disbursements, reengineering DoD business practices, strengthening internal

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controls, and improving management incentives. These reforms will take some time to implement, but DoD intends to demonstrate measurable results in the short term.

### **Acquisition and Financial Management Working**

**Group.** USD(C) established the DoD Acquisition and Financial Management Working Group to resolve the DoD-wide problem of matching disbursements to valid obligations. The working group's report, "Eliminating Unmatched Disbursements, A Combined Approach," June 1995, contains 48 recommendations for DFAS and other agencies to correct conditions that cause unmatched disbursements and to eliminate existing mismatches, including possible write-offs. The working group is also to design and oversee a long-term solution to the lack of integration between finance and acquisition systems.

**DFAS.** DFAS has undertaken efforts to improve financial reporting for the Military Department General Funds. Many of these efforts are being performed in conjunction with the Military Departments. Some of the efforts are discussed below.

**DFAS Indianapolis Center.** The DFAS Indianapolis Center has begun efforts aimed at addressing the areas of asset management, improved reporting, and accounting systems.

**Centralized Disbursing.** The DFAS Indianapolis Center is aggressively pursuing the goal of centralized disbursing functions at one site, using one disbursement station. This will be done in two phases. The first phase will be to centralize check-writing functions into a single consolidated disbursing office. The second phase will be to centralize all disbursing operations and functions under the control of the DFAS Indianapolis Center into a single disbursement station. This process has already begun, with at least one Operating Location already under centralized disbursing. This initiative will reduce processing time and costs, enhance check and bond printing, and help with the transition to electronic data interchange.

**Cross-Disbursing and "For Others" Transactions.** The DFAS Indianapolis Center is pursuing the elimination of cross-disbursing and "for others" transactions. The DFAS Indianapolis Center is encouraging customers to use the American Express charge card for travel. The DFAS Indianapolis Center is also modifying contracting officer assignment of paying activity to those directly supporting the accounting office.

**Shared Data Warehouse.** The DFAS Indianapolis Center is implementing a shared data warehouse to provide central repositories of uniform data for shared access by the DoD finance and accounting network. It will separate the data from each application, send data to other systems, and allow on-line access to data. Overall, the shared data warehouse will accelerate

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accounting and reporting. This concept will initially support Defense agency reporting and the sharing of disbursing (expenditure) data among DFAS elements. A long-term objective is to expand the disbursing portion of the shared data warehouse to include all disbursing transactions made by and for DoD.

o **Transportation Document Access.** In conjunction with the Military Traffic Management Command, a pilot initiative, Transportation Document Access, is being pursued. This initiative will provide for Government Bills of Lading used to transport personal property to be electronically posted to a central repository. Defense Accounting Offices and DFAS Operating Locations will be able to retrieve this centralized data and properly post the accounting records.

**DFAS Cleveland Center.** The DFAS Cleveland Center has begun efforts aimed at improving some of the reasons for the disclaimer identified by the Naval Audit Service. These efforts address reporting accuracy and implementation of the CFO Act.

**Quarterly Statements.** Beginning in FY 1997, the DFAS Cleveland Center began preparing quarterly financial statements. For the first quarter of FY 1997, the DFAS Cleveland Center prepared financial statements at the appropriation and Department of the Navy consolidated level. For the second quarter, the DFAS Cleveland Center prepared additional financial statements at the command level. The DFAS Cleveland Center is using the quarterly statements to coordinate with its command-level customers by explaining how the financial statements relate to other financial reports. The purpose of this effort is to make the financial statements routine reports so that management becomes familiar with them and uses them as a management tool.

**Financial Management Compliance.** In May 1995, the DFAS Cleveland Center initiated a project, Business Process Standardization and Integration Improvement, to assist the Navy in complying with financial management requirements. The project addresses the requirements of the CFO Act as they affect the DFAS Cleveland Center and the Navy.

**Problem Disbursements.** In an effort to reduce problem disbursements, such as unmatched disbursements and negative unliquidated obligations, the DFAS Cleveland Center established a Problem Disbursement Liaison Office and a Problem Disbursement Team. The Problem Disbursement Liaison Office attempts to reduce problem disbursements by performing a monthly analysis of differences between obligations and expenditures. In addition, the DFAS Cleveland Center developed a process within STARS that eliminates the need to fax or mail invoices by allowing electronic transmission

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of transactions. This process increases the speed at which cross-disbursements are made, and can potentially reduce the number of timing related problem disbursements.

**Data Standardization.** The DFAS Cleveland Center developed Data Management Plans for the Defense Retiree and Annuitant Pay System and the Material Financial Control System. The plans include the development of a logical data model for each system and a comparison of existing data elements to approved DoD standard data elements. In addition, the Departmental Financial Reporting and Reconciliation System is being designed and developed to include DoD approved standard data elements and become compliant with the Budget and Accounting Classification Architecture and the Budget and Accounting Classification Code.

**DFAS Denver Center.** The DFAS Denver Center has begun efforts aimed at improving some of its major deficiencies, which have resulted in disclaimers of opinion by the Air Force Audit Agency. These efforts address asset management, reporting accuracy, accounting systems, and implementation of the CFO Act.

**DJAS Concepts.** The DFAS Denver Center is developing concepts for DJAS. The DFAS Denver Center completed the Interim Migratory Accounting System Conceptual Foundation and Implementation Strategy in August 1995, the General Ledger/Funds Control Concept Design and Requirements in June 1996, and a limited review of CEFMS in May 1996. The Air Force has established a DJAS team, composed of members from all major commands, to work with the DFAS Denver Center on developing concepts for DJAS. This coordinated initiative is intended to ensure that DJAS includes all Air Force requirements and to improve communication between the Air Force and the DFAS Denver Center.

**Procurement Accounting Systems.** The DFAS Denver Center implemented the Direct Contract Payment Notice System at all locations of the central procurement accounting system. The Automated Reconciliation System has also been fully implemented at all Air Force Materiel Command locations; the DFAS Columbus Center, Columbus, Ohio; Headquarters, Air National Guard; and other locations. The DFAS Denver Center expects these efforts to improve controls over the obligation process and reduce the time required to reconcile problem disbursements and discrepancies between Air Force data and DFAS Columbus Center data.

**Cash Management.** DoD, the DFAS Denver Center, and the Air Force have initiated several programs that significantly reduced the cash needed for daily Air Force operations. These initiatives decreased disbursing officers' cash holding authority at Air Force active-duty and Reserve locations. For example, disbursing officers now make disbursements using

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electronic funds transfers whenever possible, and Government travelers use American Express cards to obtain cash advances. DFAS and Air Force financial managers have made effective cash management more attainable with these initiatives. Reduced cash levels provide less opportunity for misappropriation of this highly vulnerable asset.

**Cash Management Accounting.** The Departmental Cash Management System continues to be developed. This system should satisfy departmental accounting requirements and increase productivity while substantially reducing costs. The system should correct material weaknesses, respond to audit findings, and reduce the outstanding balance of undistributed disbursements, negative unliquidated obligations, and problem disbursements. The Departmental Cash Management System will replace the Merged Accountability and Fund Reporting system and the Cash Accountability Subsystem in the Cash Management Control System. DFAS initiated action to proceed with software development in September 1995. The DFAS Denver Center implemented two Departmental Cash Management System subsystems in August 1996 and plans to complete implementation by the end of 1997.

**Contingent Liabilities.** In conjunction with Air Force officials, the DFAS Denver Center is developing a systematic process for compiling and reporting contingent liabilities. DFAS issued guidance for recording and reporting contingent liabilities in the consolidated financial statements, and the Air Force Materiel Command issued a memorandum with directions to the field activities on how to manage contingent liabilities. The Deputy Chief Financial Officer, DoD, included requirements for contingent liability reporting in the "DoD Guidance on Form and Content of Financial Statements for FY 1996 Financial Activity." The DFAS Denver Center changed its financial statement reporting of contingent liabilities by correctly reporting Workers' Compensation as an actuarial liability, recording environmental cleanup costs as an "other" liability, and discontinuing the treatment of budgetary contingencies as contingent liabilities.

**Correcting Problems Identified in Prior Audits.** In conjunction with Air Force program managers and the Air Force Audit Agency, the DFAS Denver Center undertook a special project to correct specific problems reported in prior audits. As a result of the special project, the following items were achieved: development and implementation of a process for reporting satellites and their associated costs, capitalization of satellite launch costs, development of procedures to fully disclose and accurately report excess and surplus property, and the development and implementation of new procedures to capture more accurate year-end values of munitions. The DFAS also developed a reporting process for special tooling and special test equipment.



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**Assessment of Mixed Systems.** The DFAS Denver Center, in conjunction with the Air Force, has completed the Transfer of Management Responsibility project. Mixed systems, which are information systems that have both a nonfinancial application (inventory tracking) and a financial application (asset valuation), have been assessed. The evaluation phase resulted in recommendations as to whether DFAS or the Air Force should have primary responsibility for maintaining each system and the appropriate type of Federal Managers' Financial Integrity Act review. DFAS is developing standard checklists of requirements for Federal Managers' Financial Integrity Act systems. The checklists are to be published in DoD 7000.14-R, the "DoD Financial Management Regulation," volume 4, along with the responsibilities, criteria, and timelines for conducting annual reviews to meet the requirements of the Federal Managers' Financial Integrity Act, sections 2 and 4. The DFAS Denver Center is preparing memorandums of agreement to transfer responsibilities between the DFAS Denver Center and the Air Force.

**Army.** The Army has undertaken efforts designed to address financial reporting deficiencies and make its financial and accounting operations more efficient. Work in conjunction with the DFAS Indianapolis Center was discussed previously. Efforts unique to the Army are discussed below.

**Auditors' Recommendations in FY 1996 Supporting Audit Reports.** In 10 audit reports that support the FY 1996 financial statements, the Army Audit Agency has proposed numerous recommendations to improve financial reporting for the Army General Fund. See Appendix C for a list of these reports.

**Automated Interfaces.** The Army and DFAS have developed automated interfaces between the Army military personnel and pay systems to increase data accuracy and minimize improper payments. The Army has also initiated a process to reduce soldiers' out-of-service debts (debts not collected or settled before soldiers are separated from the Army).

**Government-Furnished Property.** Recognizing the extent and complexity of the problems which hinder financial accountability for Government-Furnished Property, the Assistant Secretary of the Army (Financial Management and Comptroller) contracted with Coopers and Lybrand L.L.P. for several projects designed to bring a commercial perspective to the problem of accounting for Government-Furnished Property, and to help determine needed changes.

**Logistics Processes.** A coalition of senior Army leaders implemented velocity management, a project that focuses on improving the performance of logistics processes. The goals of velocity management are to



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speed up the supply process, reduce inventories, improve the links between supply and financial management systems, and provide Army managers with timely and accurate information for decisionmaking.

**Small Purchases.** The Army has increased its use of the International Merchants Purchase Authorization Card (IMPAC) to make small purchases (generally under \$2,500). IMPAC cards are Government credit cards that allow users to charge small purchases. Auditors have projected that the Army saved the equivalent of \$155 million in work years during FY 1996 by using IMPAC cards instead of purchase orders to execute its small purchase transactions. An Army team developed specific changes in business practices to streamline the processes for purchases made with these cards. These changes, which the Army approved in August 1996, should further improve the efficiency of using the IMPAC card.

**Military Equipment Reporting.** In response to recommendations in prior audit reports, Army logisticians have taken a number of actions to solve problems in the reporting of Military Equipment. These actions include:

- o a contractor-assisted effort to reduce mismatches between unit property records and the Continuing Balance System-Expanded (the system used as the source of data for reporting equipment at tactical units);
- o the establishment of an Integrated Process Team chartered to record in-transit equipment more accurately; and
- o aggressive interactions with DFAS to modify logistics systems so that accounting applications properly report assets owned by Project Managers, as well as unserviceable, obsolete, and excess assets.

These efforts, planned for completion in FYs 1997 through 1999, should remedy many of the Army asset reporting problems and enhance the reliability of the asset values reported in the Army financial statements.

**National Guard Reporting.** The Army National Guard Bureau has identified ways to improve financial reporting and has recognized the need to review and improve business practices. Planned actions include developing a reporting process for general ledgers at the State level and reconciling data reported by State Guard units with consolidated data at DFAS. These initiatives, which the National Guard Bureau hopes to complete before FY 1998, should help solve some of the financial reporting problems of the Army National Guard.

**Problem Disbursements.** The Army is continuing to reduce the amount of problem disbursements. As of September 30, 1996, the Army

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reported a negative unliquidated obligation balance of \$133 million, the lowest since it began keeping statistics in FY 1994. However, the balance for unmatched disbursements was \$334 million higher than the year-end result for FY 1995. DFAS personnel attributed much of the increase to the ongoing consolidation of accounting offices and the resulting personnel turbulence.

**Real Property Accounting.** Recognizing the magnitude and broad nature of the problems in financial accounting for Real Property, the Army established a DoD-wide Real Property Integrated Process Team (the Team). The Team's objectives include defining the data elements needed in real property systems for financial reporting, recommending needed policy changes to DoD, and identifying the process for integrating the Defense Property Accountability System with various real property management systems. The Team has met several times and plans to meet at least twice a year until the financial reporting problems are resolved. The Team's goal is for real property data to be in the Defense Property Accountability System by the end of FY 1998.

**Travel Advances.** The Army is emphasizing the collection of outstanding travel advances and the use of Government travel cards to reduce the need for advances. Reported travel advances as of September 30, 1996, totaled about \$73 million, a decrease of about 19 percent compared to the September 30, 1995, total. Also, the Army has eliminated retained advances, is reducing the amount of imprest funds at field activities, and is reducing the level of cash controlled by disbursing officers in the field. All of these initiatives should continue to improve the efficiency of cash management practices within the Army.

**Valuation of Unserviceable and Repairable Assets.** The lack of a method for revaluing unserviceable, repairable assets was one of the reasons auditors disclaimed an opinion on the FY 1995 Army financial statements. In FY 1996, the Army agreed to a method for revaluing these unserviceable assets, and this problem was resolved.

**Adjustments to the Financial Statements.** The Army has made several adjustments to improve the accuracy of the FY 1996 financial statements. These adjustments were similar to those previously recommended by auditors. This initiative signals a fuller recognition of the need for the Army to control the financial reporting process.

**Navy.** The Navy has undertaken efforts designed to address specific issues relating to the preparation of the financial statements. Work in conjunction with the DFAS Cleveland Center was discussed previously. Efforts unique to the Navy are discussed below.

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**Auditors' Recommendations in FY 1996 Supporting Audit Reports.** In eight FY 1996 audit reports that support the financial statements, the Naval Audit Service has proposed numerous recommendations to improve financial reporting for the Navy General Fund. See Appendix C for a list of these reports.

**Financial Management Improvement Plan.** In May 1996, the Assistant Secretary of the Navy (Financial Management and Comptroller) submitted to the Secretary of the Navy a comprehensive improvement plan, along with a plan of action and milestones. The comprehensive improvement plan describes specific projects to correct long-standing deficiencies in several key areas and to improve the quality of financial data.

**Advisory Services.** A CFO Act Private Sector Council was established to provide an advisory service on the implementation of the CFO Act to the Navy.

**Preparation of the Financial Statements.** The Navy CFO Act Core Group was established to address financial statement preparation issues. It consists of representatives from the Navy; DFAS; the Naval Audit Service; the IG, DoD; GAO; and private industry. Various aspects of the CFO Act are discussed, including planning, implementation, audit response, and system upgrades and changes.

**Air Force.** The Air Force has begun to address financial reporting deficiencies and make its financial and accounting operations more efficient. Some efforts undertaken in conjunction with the DFAS Denver Center were discussed previously. Efforts unique to the Air Force are discussed below.

**Auditors' Recommendations in FY 1996 Supporting Audit Reports.** In 11 audit reports supporting the FY 1996 financial statements, the Air Force Audit Agency has proposed numerous recommendations to improve financial reporting for the Air Force General Fund. See Appendix C for a list of these reports.

**Accounting System Interfaces.** During FY 1994, the Secretary of the Air Force established a Financial Improvement Policy Council to coordinate developments between the Air Force and DFAS, particularly in areas where Air Force information systems will interface with DFAS accounting systems. This council continues to meet at least quarterly to discuss systems issues.

**Budget and Accounting Classification Code.** The Air Force has taken a major role in implementing the Budget and Accounting Classification Code, an integral part of the budget information system called the Financial Information Resource System.

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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**Electronic Commerce and Electronic Data Interchange.** The Air Force began developing the Automated Business Services System in FY 1996, including electronic commerce and electronic data interchange. This initiative, which consolidates the best of four other Air Force initiatives for electronic commerce and electronic data interchange, is currently being field-tested throughout the Air Force, and full deployment is expected in early FY 1998. The Air Force expects the Automated Business Services System to not only improve business processes, but also to substantially reduce negative unliquidated obligations.

**Logistics Systems.** The Air Force is pursuing system development or modification of four major logistics systems being modernized under the Global Combat Support System and the Defense Information Infrastructure. The four systems, the Global Combat Support System-Air Force (Standard Base Supply System), the Ammunition Management Standard System, the Automated Civil Engineer System, and the Integrated Maintenance Data System, account for 85 percent of the Air Force inventory of Property, Plant, and Equipment.

**U.S. Army Corps of Engineers, Civil Works Program.** The Corps has begun to address financial reporting deficiencies and make its financial and accounting operations more efficient. Efforts unique to the Corps are discussed below.

**Auditor Recommendations in FY 1996 Supporting Audit Reports.** In its FY 1996 financial statement audit report, the Army Audit Agency proposed numerous recommendations to improve financial reporting for the Corps. See Appendix C for the number and title of the report.

**Real Property.** The Corps established a working group to monitor progress and address problems in completing inventories and reconciliations. The Corps also issued guidance for capitalizing Real Property assets, reconciling general and subsidiary ledgers, and issuing suspense dates for completion of all inventories and reconciliations. By the end of FY 1995, the Corps actions had corrected these conditions.

**Labor Cost Transfers.** The Corps implemented stricter measures to justify labor cost transfers and to hold personnel accountable for ensuring that all labor cost transfers were valid and properly authorized because improper transfers may cause customers to be mischarged, possibly violate the Antideficiency Act, and damage the Corps cost accounting system.

**South West Division Audit.** In FY 1997, Corps management, with audit support from the Army Audit Agency, will attempt to produce auditable South West Division financial statements. The Corps has completed development of their new accounting system, CEFMS, and is implementing it

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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throughout Corps activities. CEFMS has been fully implemented within the Corps South West Division. Corps-wide implementation is scheduled to be completed in FY 1998. CEFMS includes an integrated, double-entry, transaction-driven general ledger that can compile and report auditable financial information. If successful, the Corps production of auditable South West Division financial statements may lay the groundwork for a favorable audit opinion on the FY 1998 or 1999 financial statements of the U.S. Army Corps of Engineers, Civil Works Program, financial statements.

**External Factors Affecting Improvements in the Preparation and Audit of Future DoD General Fund Financial Statements.** In addition to taking corrective actions to achieve more effective financial controls and comply with requirements of the CFO Act, the DoD financial management community also needs to meet the challenges created by external factors. Several external factors will affect the preparation of the DoD General Fund financial statements in the future. Two external factors with great potential for removing current and future impediments to audits are the Statements of Federal Financial Accounting Standards and Concepts and the FFMIA of 1996. In addition, making adjustments recommended by auditors will produce more reliable financial information.

**Statements of Federal Financial Accounting Standards and Concepts.** The Federal Accounting Standards Advisory Board has recommended, and OMB has published, several accounting standards and concepts that will substantially affect the preparation and audit of General Fund financial statements in FY 1997 and later. For example, when SFFAS No. 8, "Supplementary Stewardship Reporting," is implemented in FY 1998, a significant amount of Property, Plant, and Equipment will be moved from the principal statements and reported on a stewardship report as required supplementary stewardship information. Depending on the level of audit coverage mandated for required supplementary stewardship information, this change may remove some asset reporting deficiencies. See Table 3 for a list of the Statements of Federal Financial Accounting Standards and Concepts.

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**Table 3. Statements of Federal Financial Accounting Standards and Concepts (FEDGAAP)**

<u>Number</u>	<u>Title</u>	<u>Status</u>	<u>Publication Date</u>	<u>Effective Date</u> <sup>*</sup>
Standard No. 1	Accounting for Selected Assets and Liabilities	Final	March 30, 1993	FY 1994
Standard No. 2	Accounting for Direct Loans and Loan Guarantees	Final	August 23, 1993	FY 1994
Standard No. 3	Accounting for Inventory and Related Property	Final	October 27, 1993	FY 1994
Standard No. 4	Managerial Cost Accounting Standards for the Federal Government	Final	July 31, 1995	FY 1997
Standard No. 5	Accounting for Liabilities of the Federal Government	Final	December 20, 1995	FY 1997
Standard No. 6	Accounting for Property, Plant, and Equipment	Final	November 30, 1995	FY 1998
Standard No. 7	Accounting for Revenue and Other Financing Sources	Final	May 10, 1996	FY 1998
Standard No. 8	Supplementary Stewardship Reporting	Final	June 11, 1996	FY 1998
Concept No. 1	Objectives of Federal Financial Reporting	Final	September 2, 1993	
Concept No. 2	Entity and Display	Final	June 6, 1995	

<sup>\*</sup>Effective dates do not apply to Statements of Federal Financial Accounting Concepts.

In addition to the standards and concepts, the Federal Accounting Standards Advisory Board has approved an exposure draft of a proposed Statement of Federal Financial Accounting Concepts, "Management's Discussion and Analysis," and recently approved a decision to appoint task forces to study accounting for the cost of capital and natural resources. The OMB recently published two interpretations of existing standards: Interpretation 1, "Accounting for Treasury Judgment Fund Transactions," and Interpretation 2, "Reporting on Indian Trust Funds in General Purpose Financial Reports of the Department of the Interior and in the Consolidated Financial Statements of the United States Government." In addition, GAO will soon publish the Codification of Federal Financial Accounting Concepts and Standards.



## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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**Federal Financial Management Improvement Act of 1996 (FFMIA).** To increase the emphasis on consistent and accurate recording and monitoring of the assets, liabilities, revenues, and expenses of the Federal Government, Congress passed the FFMIA of 1996. The FFMIA of 1996, effective for FY 1997 and beyond, will substantially affect the development and implementation of DoD General Fund interim migratory systems by requiring DoD to incorporate accounting standards and the reporting objectives of the Federal Government into DoD financial management systems. It will be especially important for DoD financial managers to incorporate the Statements of Federal Financial Accounting Standards and Concepts and other authoritative accounting standards when developing and implementing the DoD General Fund interim migratory accounting systems. Emphasis on these accounting standards during the development of DoD General Fund interim migratory accounting systems will eliminate many compliance-related issues that have prevented favorable audit opinions on the DoD General Fund financial statements.

The FFMIA of 1996 requires DoD financial managers to implement and maintain financial management systems that comply substantially with:

- o Federal requirements for financial management systems, such as OMB Circular No. A-127, "Financial Management Systems," July 23, 1993;
- o applicable Federal accounting standards such as the Statements of Federal Financial Accounting Standards and Concepts, discussed in the previous section; and
- o the U.S. Government Standard General Ledger (at transaction level).

Beginning in FY 1997, the DoD audit community, in performing the financial statement audits required by the CFO Act, is required to report whether DoD financial management systems comply with the requirements above. If the financial management systems are not in compliance, auditors will be responsible for reporting:

- o the entity responsible for the noncompliant systems;
- o all facts related to the noncompliance -- its nature and extent, primary cause, the entity responsible for failure to comply, and any other relevant comments; and
- o recommended remedial actions and time frames for completion.

By July 1, 1998, and annually thereafter, DoD financial managers must determine whether the DoD financial management systems comply with the requirements above. If the financial management systems are not in compliance, DoD financial managers, in consultation with the Director, OMB,

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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must establish a remediation plan that includes resources, remedies, and intermediate target dates to bring systems into substantial compliance. The remediation plan must bring systems into compliance within 3 years of the determination (or by July 1, 2001), unless DoD financial managers, with concurrence from the Director, OMB:

- o determine that systems cannot comply within 3 years,
- o specify the most feasible date for compliance, and
- o designate a DoD official to be responsible for bringing the systems into compliance by the most feasible date.

If DoD financial managers disagree with the auditors' conclusion that the systems are not in compliance, the Director, OMB, will review both determinations and report those conclusions to Congress.

The IG, DoD, is required to report to Congress instances and reasons when DoD has not met intermediate target dates established in the remediation plan. This report will identify the entity responsible for the noncompliance and the facts related to the noncompliance (its nature and extent, primary cause, and extenuating circumstances). The report will also state the remedial actions that are needed to comply.

**DoD Auditors' Recommended Adjustments to the General Fund Financial Statements.** Another factor that affects improvements to the DoD General Fund financial statements is making auditor-recommended adjustments. Auditors identified and recommended \$202 billion of adjustments to amounts reported in the FY 1996 DoD General Fund financial statements. Table 4 lists FY 1996 auditor-recommended adjustments for each set of Military Department General Fund financial statements.

**Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD  
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<b>Table 4. FY 1996 Auditor-Recommended Adjustments (Billions)</b>	
<b>General Fund Financial Statements</b>	<b>Recommended Adjustments</b>
Army	\$ 56.4
Navy	136.2
Air Force	9.2
U.S. Army Corps of Engineers, Civil Works Program	0.2
<b>Total Recommended Adjustments</b>	<b>\$ 202.0</b>

Because of the materiality of these adjustments to the financial statements, DoD financial managers must continue to work with the DoD audit community to ensure that auditor-recommended adjustments are made to the DoD General Fund financial statements.

**Summary of DoD Corrective Actions Taken or Under Way.** The financial management of the DoD General Funds is complex, and improving the quality of DoD accounting systems and DoD financial data is equally complex. Auditors have identified major deficiencies with DoD General Fund accounting systems and the financial data produced by these systems. DoD managers have acknowledged the significant deficiencies in accounting systems and associated problems with financial data, and have taken or begun corrective actions to improve the processes used to compile the DoD General Fund financial statements.

Among the many corrective actions taken or under way, the corrective action with the greatest potential for correcting financial management problems in the DoD General Funds is the development and implementation of DoD General Fund interim migratory accounting systems. The DoD General Fund interim migratory accounting systems include DJAS, which is being developed for the Army and the Air Force; STARS, which is being implemented for the Navy;

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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and SABRS, which is being implemented for the Marine Corps. Until these accounting systems are fully developed and implemented -- for the Army and Air Force General Funds, this is not expected until FY 2003 -- disclaimers of opinion can be expected for the Military Department General Fund financial statements, as well as the DoD Consolidated Financial Statements.

However, on a more positive note, after years of work, the Corps has completed development of its new accounting system, CEFMS, and is implementing the system throughout Corps activities. This implementation should be completed during FY 1998. CEFMS includes an integrated, double-entry, transaction-driven general ledger that can compile and report auditable financial information. Because CEFMS has been fully implemented within the Corps South West Division, Corps management will produce, and the Army Audit Agency will attempt to audit, the financial statements for the South West Division. If this effort is successful, it may lay the groundwork for potential favorable opinions on FY 1998 or 1999 financial statements of the U.S. Army Corps of Engineers, Civil Works Program.

In addition to actions taken to correct deficiencies in accounting systems, DoD has also taken significant steps toward achieving more effective financial controls and is striving to produce more reliable financial information. These steps, if accompanied by successful DoD management of external factors -- such as the Statements of Federal Financial Accounting Standards and Concepts, the FFMIA, and making auditor-recommended adjustments -- may help eliminate some major deficiencies preventing favorable audit opinions on the DoD General Fund financial statements.

## **Conclusion**

DoD financial managers have candidly acknowledged that the accounting systems that support DoD General Funds do not have integrated, double-entry, transaction-driven general ledgers to compile and report reliable and auditable information. The information is not auditable because the accounting systems do not produce an audit trail of information from the occurrence of a transaction through recognition in accounting records and ultimately to the financial statements. Because of the inadequate accounting systems, neither management nor auditors could obtain sufficient evidence or apply other auditing procedures to satisfy themselves as to the fairness of the financial statements. Until general fund accounting systems with integrated, double-entry, transaction-driven general ledgers are developed and implemented, auditors cannot determine whether transactions are properly recorded, processed, and summarized. This presents a significant scope limitation and will prevent favorable audit opinions on the DoD General Fund financial statements. Although the accounting

## **Major Deficiencies Preventing Favorable Audit Opinions on the FY 1996 DoD General Fund Financial Statements**

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systems that support DoD General Funds are currently noncompliant, the DFAS continues to strive for compliant general fund accounting systems. The current DFAS Strategic Plan estimates that compliant general fund accounting systems will be in place by FY 2003. In addition, the U.S. Army Corps of Engineers is currently deploying a new accounting system that is supposed to be compliant. This system is expected to be deployed throughout the U.S. Army Corps of Engineers during FY 1998. As a result, although it accounts for only 4 percent of the total DoD General Fund assets and revenues, a favorable audit opinion on the financial statements of the U.S. Army Corps of Engineers, Civil Works Program, may be possible as early as FY 1998 or 1999.

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## **Part II - Additional Information**

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## Appendix A. Audit Process

**Scope and Methodology.** We reviewed the results of all audits of the FY 1996 DoD General Fund financial statements.

IG, DoD, FY 1996 DoD General Fund Financial Statement Audit Process	
Financial Statements	Audit Organization
Army General Fund	Army Audit Agency
Navy General Fund	Naval Audit Service
Air Force General Fund	Air Force Audit Agency
U.S. Army Corps of Engineers, Civil Works Program	Army Audit Agency

See Appendix C for a list of the FY 1996 audit reports we reviewed. The audit was limited to identifying and summarizing the major deficiencies that prevented favorable audit opinions on the FY 1996 DoD General Fund financial statements. We defined "major deficiency" as a reason that auditors could not render an audit opinion, as reported in their FY 1996 audit reports. The audit was further limited to identifying the actions taken or under way to correct or remove these deficiencies. We defined "corrective actions" as those reported by the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency in their FY 1996 audit reports and those identified by DoD in published planning documents.

**Audit Period and Standards.** We performed this financial-related audit during the period November 1996 through May 1997. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD. We did not use computer-processed data or statistical sampling procedures to conduct this audit.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD and GAO. Further details are available on request.

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## Appendix B. Summary of Prior Coverage

**IG, DoD, Report No. 97-026, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on FY 1995 DoD General Fund Financial Statements," November 19, 1996.** This report identified and summarized the major deficiencies that prevented auditors from rendering audit opinions on the FY 1995 DoD General Fund financial statements, and identified actions taken or under way to correct these deficiencies. Auditors identified several major deficiencies that prevented them from rendering audit opinions on the FY 1995 DoD General Fund financial statements. The overarching deficiency was the lack of compliant accounting systems for the compilation of accurate and complete financial data. The report noted that DFAS was working to develop compliant accounting systems for general funds by evaluating options for a general fund accounting system, and that the USD(C) had designated the Corps of Engineers Financial Management System (CEFMS) as the migratory accounting system for Army and Air Force General Fund accounting. The report concluded that until DFAS finalizes and begins to execute plans for CEFMS, auditors cannot estimate when auditable DoD General Fund and DoD Consolidated Financial Statements can be prepared using accounting system data. Therefore, disclaimers of opinion can be expected until the next century for the Military Department General Fund financial statements, as well as the DoD Consolidated Financial Statements. Although the report made no recommendations for corrective action, the USD(C) provided comments that nonconcurred with audit conclusions on the recognition of contingent liabilities and the basis of accounting. These issues were resolved through mediation.

**IG, DoD, Report No. 95-301, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on DoD General Fund Financial Statements," August 29, 1995.** This report summarized the major deficiencies that prevented auditors from rendering audit opinions on Army and Air Force FY 1993 and 1994 General Fund financial statements. The report identified four major deficiencies.

- o Compliant accounting systems were not in place.
- o Assets were not adequately reported or properly valued.
- o Disbursement and collection account balances were questionable.
- o Contingent liabilities were not recognized or adequately disclosed.

The report also discussed corrective actions taken or under way. The report did not contain any recommendations for corrective action.

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## **Appendix C. Audit Reports Issued for FYs 1993 Through 1996 on DoD General Fund Financial Statements**

### **IG, DoD, Reports**

#### **Army FY 1993 General Fund Financial Statements**

IG, DoD, Report No. 94-168, "Defense Finance and Accounting Service Work on the Army FY 1993 Financial Statements," July 6, 1994.

#### **Air Force FY 1993 General Fund Financial Statements**

IG, DoD, Report No. 95-067, "Defense Finance and Accounting Service Work on the Air Force FY 1993 Financial Statements," December 30, 1994.

#### **Air Force FY 1994 General Fund Financial Statements**

IG, DoD, Report No. 95-264, "Defense Finance and Accounting Service Work on the Air Force FY 1994 Financial Statements," June 29, 1995.

#### **Army FY 1995 General Fund Financial Statements**

IG, DoD, Report No. 96-161, "Compilation of FY 1995 and FY 1996 DoD Financial Statements at the Defense Finance and Accounting Service, Indianapolis Center," June 13, 1996.

### **Army Audit Agency Reports**

#### **Army FY 1993 General Fund Financial Statements**

Army Audit Agency Report No. HQ 94-450, "Audit of the Army's FY 93 Financial Statements, Audit Opinion," June 30, 1994.

## **Appendix C. Audit Reports Issued for FYs 1993 Through 1996 on DoD General Fund Financial Statements**

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Army Audit Agency Report No. HQ 94-451, "Audit of the Army's FY 93 Financial Statements, DoD Policy Issues," August 31, 1994.

Army Audit Agency Report No. HQ 94-452, "Audit of the Army's FY 93 Financial Statements, Follow-up Issues," August 30, 1994.

Army Audit Agency Report No. WR 94-473, "Audit of the Army's FY 93 Financial Statements, Retail Military Equipment," August 31, 1994.

Army Audit Agency Report No. SR 94-481, "FY 93 Financial Statements, Civil Works, U.S. Army Corps of Engineers," June 30, 1994.

Army Audit Agency Report No. SR 94-485, "Audit of the Army's FY 93 Financial Statements, Cash Flow Statement," August 30, 1994.

Army Audit Agency Report No. NR 94-466, "Financial Reporting of Conventional Ammunition," August 4, 1994.

Army Audit Agency Report No. SR 94-486, "Audit of the Army's FY 93 Financial Statements, Military and Civilian Payrolls," August 30, 1994.

### **Army FY 1994 General Fund Financial Statements**

Army Audit Agency Report No. HQ 95-451, "Audit of the Army's Principal Financial Statements, Fiscal Years 1994 and 1993, Audit Opinion," March 23, 1995.

Army Audit Agency Report No. SR 95-452, "Audit of General Ledger Accounting, Standard Operation and Maintenance, Army Research and Development System," June 8, 1995.

Army Audit Agency Report No. SR 95-451, "Audit of Financial Operations, U.S. Army Materiel Command," September 27, 1995.

Army Audit Agency Report No. NR 95-7, "Audit of the Army's FY 94 Financial Statements, Military Travel and Pay Advances," June 20, 1995.

Army Audit Agency Report No. NR 95-428, "Audit of the Army's FY 94 Financial Statements, Financial Reporting of Wholesale Assets," June 19, 1995.

### **Army FY 1995 General Fund Financial Statements**

Army Audit Agency Report No. AA 96-152, "Examination of the Army's Financial Statements for Fiscal Years 1995 and 1994, Auditor's Report," March 15, 1996.

## **Appendix C. Audit Reports Issued for FYs 1993 Through 1996 on DoD General Fund Financial Statements**

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Army Audit Agency Report No. AA 96-154, "Examination of the Army's Financial Statements for Fiscal Years 1995 and 1994, Report on Internal Controls and Compliance With Laws and Regulations," July 11, 1996.

Army Audit Agency Report No. AA 96-155, "Financial Reporting of Wholesale Munitions, U.S. Army Industrial Operations Command, U.S. Army Missile Command," April 19, 1996.

Army Audit Agency Report No. AA 96-156, "Financial Reporting of Equipment In Transit," June 17, 1996.

Army Audit Agency Report No. AA 97-78, "Financial Reporting of Wholesale Equipment," January 17, 1997.

Army Audit Agency Report No. AA 96-157, "Travel Advances, Defense Accounting Office, U.S. Army Missile Command," May 20, 1996.

Army Audit Agency Report No. AA 96-158, "Standard Operations and Maintenance Army Research and Development System and Subsidiary Ledgers, Defense Accounting Office, U.S. Army Missile Command," June 3, 1996.

Army Audit Agency Report No. AA 96-159, "Wholesale Equipment, Tobyhanna Defense Distribution Depot," June 18, 1996.

### **Army FY 1996 General Fund Financial Statements**

Army Audit Agency Report No. AA 97-133, "Examination of the Army's Financial Statements for Fiscal Years 1996 and 1995, Auditor's Report," February 21, 1997.

Army Audit Agency Report No. AA 97-144, "Proposed Adjustments and Comments Regarding Army's FY 96 Annual Financial Report," June 23, 1997.

Army Audit Agency Report AA No. 97-145, "Report on Internal Controls and Compliance with Laws and Regulations," June 30, 1997.

Army Audit Agency Report No. AA 97-146, "Financial Reporting of Wholesale Asset Balances," June 13, 1997.

Army Audit Agency Report No. AA 97-147, "Financial Reporting of Asset Values," July 28, 1997.

Army Audit Agency Draft Report No. AA 97-148, "Financial Reporting of Government-Furnished Property," March 26, 1997.



### **Appendix C. Audit Reports Issued for FYs 1993 Through 1996 on DoD General Fund Financial Statements**

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Army Audit Agency Draft Report No. AA 97-149, "Financial Reporting of Real Property," June 5, 1997.

Army Audit Agency Draft Report No. AA 97-150, "Financial Reporting of Retail Equipment," April 25, 1997.

Army Audit Agency Draft Report No. AA 97-151, "Financial Reporting of National Guard Items," June 5, 1997.

Army Audit Agency Draft Report No. AA 97-152, "Financial Reporting of Progress Payments," April 26, 1997.

Army Audit Agency Report No. AA 97-153, "Financial Reporting of Accounts Payable," August 27, 1997.

Army Audit Agency Draft Report No. AA 97-154, "Financial Reporting of Selected Liabilities," April 9, 1997.

#### **Corps of Engineers, Civil Works Program, FY 1994 General Fund Financial Statements**

Army Audit Agency Report No. SR 95-449, "Audit of FY 94 Financial Statements, Civil Works, U.S. Army Corps of Engineers," March 13, 1995.

#### **Corps of Engineers, Civil Works Program, FY 1995 General Fund Financial Statements**

Army Audit Agency Report No. AA 96-137, "Audit of the Conditions Found in Previous Financial Statement Audits, Civil Works, U.S. Army Corps of Engineers," February 26, 1996.

#### **Corps of Engineers, Civil Works Program, FY 1996 General Fund Financial Statements**

Army Audit Agency Report No. AA 97-136, "FY 96 Financial Statements, U.S. Army Corps of Engineers, Civil Works," February 28, 1997.

**Appendix C. Audit Reports Issued for FYs 1993 Through 1996  
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**Naval Audit Service Reports**

**Navy FY 1996 General Fund Financial Statements**

Naval Audit Service Report No. 022-97, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Auditor's Opinion," March 1, 1997.

Naval Audit Service Draft Report No. 97-0051, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Fund Balance With Treasury," June 20, 1997.

Naval Audit Service Draft Report No. 97-0049, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Property, Plant, and Equipment," May 6, 1997.

Naval Audit Service Report No. 046-97, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Government Property Held by Contractors," August 14, 1997.

Naval Audit Service Draft Report No. 97-0048, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Ammunition," May 22, 1997.

Naval Audit Service Draft Report No. 97-0050, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Advances and Prepayments," May 16, 1997.

Naval Audit Service Report No. 045-97, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Accounts Receivable," August 12, 1997.

Naval Audit Service Draft Report No. 97-0046, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Accounts Payable and Accrued Payroll and Benefits," June 3, 1997.

Naval Audit Service Draft Report No. 97-0082, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Department of Defense Issues," July 31, 1997.

Naval Audit Service Report No. 029-97, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Internal Controls and Compliance with Laws and Regulations," April 15, 1997.

**Appendix C. Audit Reports Issued for FYs 1993 Through 1996  
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## **Air Force Audit Agency Reports**

### **Air Force FY 1993 General Fund Financial Statements**

Air Force Audit Agency Report No. 94053022, "Opinion on FY 1993 Air Force Consolidated Financial Statements," June 30, 1994.

Air Force Audit Agency Report No. 93053024, "Review of Military Equipment, FY 1993 Air Force Consolidated Financial Statements," July 20, 1994.

Air Force Audit Agency Report No. 94053031, "Review of Inventories Not Held For Sale, FY 1993 Air Force Consolidated Financial Statements," July 1, 1994.

Air Force Audit Agency Report No. 93053007, "Review of Equipment and Vehicle Inventory, FY 1993 Air Force Consolidated Financial Statements," July 22, 1994.

Air Force Audit Agency Report No. 94053024, "Review of Contingent Liabilities, FY 1993 Air Force Consolidated Financial Statements," August 8, 1994.

Air Force Audit Agency Report No. 94053026, "Review of Real Property, FY 1993 Air Force Consolidated Financial Statements," July 27, 1994.

Air Force Audit Agency Report No. 93053015, "Review of Accuracy and Validity of Air Force Obligations, FY 1993 Air Force Consolidated Financial Statements," August 26, 1994.

Air Force Audit Agency Report No. 94053030, "Review of the Funds Control Process, FY 1993 Air Force Consolidated Financial Statements," August 26, 1994.

Air Force Audit Agency Report No. 94053021, "Review of Management Initiatives to Improve Financial Reporting, FY 1993 Air Force Consolidated Financial Statements," August 8, 1994.

Air Force Audit Agency Report No. 94053029, "Review of Overview and Performance Measures, FY 1993 Air Force Consolidated Financial Statements," August 8, 1994.

Air Force Audit Agency Report No. 93053014, "Review of Civilian Payroll, FY 1993 Air Force Consolidated Financial Statements," June 6, 1994.

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Air Force Audit Agency Report No. 93053013, "Review of Military Personnel Costs, FY 1993 Air Force Consolidated Financial Statements," July 1, 1994.

**Air Force FY 1994 General Fund Financial Statements**

Air Force Audit Agency Report No. 94053001, "Opinion on FY 1994 Air Force Consolidated Financial Statements," March 1, 1995.

Air Force Audit Agency Report No. 94053032, "Review of Property, Plant, and Equipment, FY 1994 Air Force Consolidated Financial Statements," August 10, 1995.

Air Force Audit Agency Report No. 94053033, "Review of the Fund Control Process, FY 1994 Air Force Consolidated Financial Statements," February 5, 1996.

Air Force Audit Agency Report No. 94053034, "Review of Operating Materials and Supplies, FY 1994 Air Force Consolidated Financial Statements," June 27, 1995.

Air Force Audit Agency Report No. 94053035, "Review of Military and Civilian Pay, FY 1994 Air Force Consolidated Financial Statements," April 24, 1995.

Air Force Audit Agency Report No. 94053037, "Review of Contingent Liabilities, FY 1994 Air Force Consolidated Financial Statements," May 1, 1995.

**Air Force FY 1995 General Fund Financial Statements**

Air Force Audit Agency Report No. 95053001, "Opinion on Fiscal Year 1995 Air Force Consolidated Financial Statements," March 1, 1996.

Air Force Audit Agency Report No. 96053012, "Review of Civilian Pay, Fiscal Year 1995 Air Force Consolidated Financial Statements," April 1, 1996.

Air Force Audit Agency Report No. 96053013, "Review of Contingent Liabilities, Fiscal Year 1995 Air Force Consolidated Financial Statements," April 18, 1996.

Air Force Audit Agency Report No. 95053009, "Efforts to Improve Air Force Financial Management," July 9, 1996.

Air Force Audit Agency Report No. 95053004, "Review of Military Pay, Fiscal Year 1995 Air Force Consolidated Financial Statements," July 25, 1996.

## **Appendix C. Audit Reports Issued for FYs 1993 Through 1996 on DoD General Fund Financial Statements**

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Air Force Audit Agency Report No. 95053002, "Review of Property, Plant, and Equipment, Fiscal Year 1995 Air Force Consolidated Financial Statements," June 13, 1996.

Air Force Audit Agency Report No. 96053014, "Review of Cash Operations, Fiscal Year 1995 Air Force Consolidated Financial Statements," June 17, 1996.

Air Force Audit Agency Report No. 95053005, "Review of Operating Materials and Supplies, Fiscal Year 1995 Air Force Consolidated Financial Statements," August 29, 1996.

Air Force Audit Agency Report No. 96053010, "Review of Weapon System Progress Payments, Fiscal Year 1995 Air Force Consolidated Financial Statements," June 14, 1996.

Air Force Audit Agency Report No. 95053003, "Review of the Fund Control Process, Fiscal Year 1995 Air Force Consolidated Financial Statements," June 27, 1996.

Air Force Audit Agency Report No. 96053011, "Review of Government Furnished Property, Fiscal Year 1995 Air Force Consolidated Financial Statements," October 22, 1996.

### **Air Force FY 1996 General Fund Financial Statements**

Air Force Audit Agency Report No. 96053001, "Report of Audit, Opinion on Fiscal Year 1996 Air Force Consolidated Financial Statements," March 1, 1997.

Air Force Audit Agency Report No. 96053002, "Federal Mission Property, Plant, and Equipment, Fiscal Year 1996 Air Force Consolidated Financial Statements," May 29, 1997.

Air Force Audit Agency Draft Report No. 96053003, "Fund Control Process, Fiscal Year 1996 Air Force Consolidated Financial Statements," February 7, 1997.

Air Force Audit Agency Report No. 96053004, "Civilian Pay, Fiscal Year 1996 Air Force Consolidated Financial Statements," April 17, 1997.

Air Force Audit Agency Report No. 96053005, "Operating Materials and Supplies, Fiscal Year 1996 Air Force Consolidated Financial Statements," May 30, 1997.

**Appendix C. Audit Reports Issued for FYs 1993 Through 1996  
on DoD General Fund Financial Statements**

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Air Force Audit Agency Draft Report No. 96053006, "Weapon System Progress Payments, Fiscal Year 1996 Air Force Consolidated Financial Statements," February 21, 1997.

Air Force Audit Agency Report No. 96053015, "Military Pay, Fiscal Year 1996 Air Force Consolidated Financial Statements," April 15, 1997.

Air Force Audit Agency Draft Report No. 96053017, "Government Furnished Property, Fiscal Year 1996 Air Force Consolidated Financial Statements," March 21, 1997.

Air Force Audit Agency Report No. 96053019, "Real Property and Nonmilitary Equipment, Fiscal Year 1996 Air Force Consolidated Financial Statements," June 20, 1997.

Air Force Audit Agency Draft Report No. 97053011, "Eliminating Entries and Nonoperating Changes, Fiscal Year 1996 Air Force Consolidated Financial Statements," April 15, 1997.

Air Force Audit Agency Draft Report No. 97053012, "Contingent Liabilities, Fiscal Year 1996 Air Force Consolidated Financial Statements," April 10, 1997.

Air Force Audit Agency Draft Report No. 97053013, "Invested Capital, Fiscal Year 1996 Air Force Consolidated Financial Statements," May 29, 1997.

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1996 Statements of Financial Position (Page 1 of 4) (Millions)

	<u>Assets</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Corps of Engineers</u>	<u>Total</u>
1. Entity Assets:						
a. Transactions With Federal Entities:						
(1). Fund Balances With Treasury	\$ 31,343	\$ 64,802	\$ 50,663	\$ 1,611	\$ 148,419	
(2). Investments, Net	1	8	1	279	289	
(3). Accounts Receivable, Net	954	1,928	1,378	356	4,616	
(4). Interest Receivable	0	0	0	2	2	
(5). Advances and Prepayments	4	67	2	0	73	
(6). Other Federal (Intragovernmental)	0	0	0	(13)	(13)	
b. Transactions With Non-Federal Entities:						
(1). Investments	0	0	0	0	0	0
(2). Accounts Receivable, Net	260	4,361	190	21	4,832	
(3). Credit Program Receivables	0	0	0	0	0	0
(4). Interest Receivable, Net	0	0	0	0	0	0
(5). Advances and Prepayments	424	203	7,107	3	7,737	
(6). Other Non-Federal (Governmental)	0	0	0	(44)	(44)	
c. Cash and Other Monetary Assets	20	51	42	0	113	
d. Inventory, Net	37,670	41,441	36,519	0	115,630	
e. Work in Process	0	5	0	0	5	
f. Operating Material/Supplies, Net	0	0	0	9	9	
g. Stockpile Materials, Net	0	0	0	0	0	
h. Seized Property	0	0	0	0	0	
i. Forfeited Property, Net	0	0	0	0	0	
j. Goods Held Under Price Support	0	0	0	0	0	
k. Property, Plant, and Equipment, Net	124,868	340,975	246,059	38,658	750,560	
l. Other Entity Assets	5,477	0	0	220	5,697	
m. Total Entity Assets	\$201,021	\$453,841	\$341,961	\$41,101	\$1,037,924	



# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1996 Statements of Financial Position (Page 2 of 4) (Millions)

<u>Assets (Cont'd)</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Corps of Engineers</u>	<u>Total</u>
2. Nonentity Assets:					
a. Transactions With Federal Entities:					
(1). Fund Balance With Treasury	\$ (134)	\$ (573)	\$ 48	\$ 54	\$ (605)
(2). Accounts Receivable, Net	0	117	0	2	119
(3). Interest Receivable, Net	0	0	0	0	0
(4). Other	0	0	0	0	0
b. Transactions With Non-Federal Entities:					
(1). Accounts Receivable, Net	6	(27)	9	550	538
(2). Interest Receivable, Net	6	0	47	0	47
(3). Other	0	0	8	0	8
c. Cash and Other Monetary Assets	143	65	69	0	277
d. Other Nonentity Assets	0	0	0	0	0
e. Total Nonentity Assets	\$ 21	\$ (417)	\$ 180	\$ 606	\$ 391
3. Total Assets	\$201,042	\$453,424	\$342,141	\$41,707	\$1,038,315
<u>Liabilities</u>					
4. Liabilities Covered by Budgetary Resources:					
a. Transactions With Federal Entities:					
(1). Accounts Payable	\$2,069	\$2,547	\$102	\$168	\$4,886
(2). Interest Payable	0	0	0	0	0
(3). Debt	0	0	0	0	0
(4). Other Federal Liabilities	725	303	722	26	1,776

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1996 Statements of Financial Position (Page 3 of 4) (Millions)

Liabilities (Cont'd)	Army	Navy	Air Force	Corps of Engineers	Total
b. Transactions With Non-Federal Entities:					
(1). Accounts Payable	\$1,789	\$ 6,462	\$2,343	\$ 424	\$11,018
(2). Accrued Payroll and Benefits:					
(a). Salaries and Wages	1,957	250	1,057	81	3,345
(b). Annual Accrued Leave	0	0	0	169	169
(c). Severance Pay and Separation Allowance	328	406	17	0	751
(3). Interest Payable	0	0	0	0	0
(4). Liabilities for Loan Guarantees	0	0	0	0	0
(5). Lease Liabilities	0	0	0	0	0
(6). Pensions/Other Actuarial Liabilities	0	0	0	0	0
(7). Other Non-Federal Liabilities	219	40	17	132	408
c. Total Liabilities Covered by Budgetary Resources	\$7,088	\$10,008	\$4,258	\$1,000	\$22,354
5. Liabilities Not Covered by Budgetary Resources:					
a. Transactions With Federal Entities:					
(1). Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(2). Debt	0	0	0	0	0
(3). Other Federal Liabilities	769	0	0	2	771
b. Transactions With Non-Federal Entities:					
(1). Accounts Payable	0	0	0	0	0
(2). Debt	0	0	0	0	0
(3). Lease Liabilities	0	0	0	0	0
(4). Pensions/Other Actuarial Liabilities	1,314	2,161	993	0	4,468
(5). Other Non-Federal Liabilities	16,139	1,149	6,143	549	23,980
c. Total Liabilities Not Covered by Budgetary Resources	\$18,222	\$ 3,310	\$ 7,136	\$ 551	\$ 29,219
6. Total Liabilities	\$25,309	\$13,318	\$11,395	\$1,551	\$51,573

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1996 Statements of Financial Position (Page 4 of 4) (Millions)

<u>Net Position</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Corps of Engineers</u>	<u>Total</u>
7. Balances:					
a. Unexpended Appropriations	\$ 27,462	\$ 60,976	\$ 48,304	\$ 2,242	\$ 138,984
b. Invested Capital	168,161	382,396	289,575	38,402	878,534
c. Cumulative Results of Operations	(1,668)	(12)	3	63	(1,614)
d. Other	0	56	2	0	58
e. Future Funding Requirements	<u>(18,222)</u>	<u>(3,310)</u>	<u>(7,136)</u>	<u>(551)</u>	<u>(29,219)</u>
f. Total Net Position	\$175,733	\$440,105	\$330,747	\$40,157	\$986,742
8. Total Liabilities and Net Position	\$201,042	\$453,424	\$342,141	\$41,707	\$1,038,315

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1996 Statements of Operations and Changes in Net Position (Page 1 of 2) (Millions)

	<u>Revenues and Financing Sources</u>			<u>Corps of Engineers</u>	<u>Total</u>
	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>		
1. Appropriated Capital Used					
2. Revenues From Sale of Goods:					
a. To the Public					
b. Intragovernmental	627	54	227	0	908
3. Interest and Penalties, Non-Federal	5,553	6,646	2,992	3,301	18,492
4. Interest, Federal	0	1	9	0	10
5. Taxes	0	1	0	16	17
6. Other Revenues and Financing Sources	0	0	0	0	0
7. Less: Taxes and Receipts Transferred to Treasury or Other Agencies	930	4	0	262	1,196
8. <b>Total Revenue and Financing Sources</b>	<u>(433)</u>	<u>0</u>	<u>(9)</u>	<u>(192)</u>	<u>(634)</u>
	<b>\$62,320</b>	<b>\$63,242</b>	<b>\$59,482</b>	<b>\$7,096</b>	<b>\$192,140</b>
<u>Expenses</u>					
9. Program or Operating Expenses					
10. Cost of Goods or Services Sold:					
a. To the Public					
b. Intragovernmental	627	49	227	0	903
11. Depreciation	5,553	6,673	2,992	813	16,031
12. Bad Debts and Write-offs	0	0	0	350	350
13. Interest:	23	79	7	0	109
a. Federal Financing	0	0	0	0	0
b. Federal Securities	0	0	0	0	0
c. Other	2	0	3	0	5
14. Other Expenses	735	0	480	0	1,215
15. <b>Total Expenses</b>	<u>\$64,729</u>	<u>\$63,266</u>	<u>\$59,557</u>	<u>\$7,108</u>	<u>\$194,660</u>
	<b>\$57,789</b>	<b>\$56,466</b>	<b>\$55,848</b>	<b>\$5,946</b>	<b>\$176,049</b>

Appendix D. Data From FY 1996 DoD General Fund Financial Statements

**Data From FY 1996 Statements of Operations and Changes in Net Position (Page 2 of 2)**  
(Millions)

	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Corps of Engineers</u>	<u>Total</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments	\$ (2,409)	\$ (25)	\$ (74)	\$ (12)	\$ (2,520)
17. Plus (Minus) Extraordinary Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expense	\$ (2,409)	\$ (25)	\$ (74)	\$ (12)	\$ (2,520)
19. Net Position, Beginning Balances	\$211,232	\$443,232	\$315,529	\$40,230	\$1,010,223
20. Adjustments	<u>(13,685)</u>	<u>0</u>	<u>3,788</u>	<u>0</u>	<u>(9,897)</u>
21. Net Position, Beginning Balances Restated	\$197,546	\$443,232	\$319,317	\$40,230	\$1,000,326
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$ (2,409)	\$ (25)	\$ (74)	\$ (12)	\$ (2,520)
23. Plus (Minus) Non Operating Changes	<u>(19,404)</u>	<u>(3,102)</u>	<u>11,504</u>	<u>(62)</u>	<u>(11,064)</u>
24. Net Position, Ending Balances	\$175,733	\$440,105	\$330,747	\$40,157	\$986,742

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1995 Statements of Financial Position (Page 1 of 4) (Millions)

Assets	Army	Navy*	Air Force	Corps of Engineers	Total
1. Entity Assets:					
a. Transactions With Federal Entities:					
(1). Fund Balances With Treasury	\$ 29,661	--	\$ 54,781	\$ 1,890	\$ 86,332
(2). Investments, Net	1	--	0	241	242
(3). Accounts Receivable, Net	977	--	1,363	342	2,682
(4). Interest Receivable	0	--	0	1	1
(5). Advances and Prepayments	90	--	3	0	93
(6). Other Federal (Intragovernmental)	0	--	0	3	3
b. Transactions With Non-Federal Entities:					
(1). Investments	0	--	0	0	0
(2). Accounts Receivable, Net	180	--	187	628	995
(3). Credit Program Receivables	0	--	0	0	0
(4). Interest Receivable, Net	0	--	0	0	0
(5). Advances and Prepayments	920	--	8,121	2	9,043
(6). Other Non-Federal (Governmental)	0	--	0	(102)	(102)
c. Cash and Other Monetary Assets	270	--	0	0	270
d. Inventory, Net	33,161	--	0	0	33,161
e. Work in Process	0	--	0	0	0
f. Operating Material/Supplies, Net	0	--	23,936	13	23,949
g. Stockpile Materials, Net	0	--	0	0	0
h. Seized Property	0	--	0	0	0
i. Forfeited Property, Net	0	--	0	0	0
j. Goods Held Under Price Support	0	--	0	0	0
k. Property, Plant, and Equipment, Net	155,943	--	234,478	38,959	429,380
l. Other Entity Assets	153	--	0	28	181
m. Total Entity Assets	\$221,356	--	\$322,870	\$42,005	\$586,231

\*The FY 1996 Navy General Fund financial statements did not contain FY 1995 data because FY 1996 was the first year the Department of the Navy was required to prepare audited general fund financial statements.

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1995 Statements of Financial Position (Page 2 of 4) (Millions)

<u>Assets (Cont'd)</u>	<u>Army</u>	<u>Navy*</u>	<u>Air Force</u>	<u>Corps of Engineers</u>	<u>Total</u>
2. Nonentity Assets:					
a. Transactions With Federal Entities:					
(1). Fund Balance With Treasury	\$ 355	--	\$ 54	\$ 34	\$ 443
(2). Accounts Receivable, Net	0	--	0	2	2
(3). Interest Receivable, Net	0	--	0	0	0
(4). Other	0	--	0	0	0
b. Transactions With Non-Federal Entities:					
(1). Accounts Receivable, Net	8	--	774	18	800
(2). Interest Receivable, Net	1	--	0	0	1
(3). Other	0	--	1	0	1
c. Cash and Other Monetary Assets	0	--	114	0	114
d. Other Nonentity Assets	0	--	0	0	0
e. <b>Total Nonentity Assets</b>	<b>\$ 364</b>	<b>--</b>	<b>\$ 943</b>	<b>\$ 54</b>	<b>\$ 1,360</b>
3. <b>Total Assets</b>	<b>\$221,719</b>	<b>--</b>	<b>\$323,812</b>	<b>\$42,059</b>	<b>\$587,591</b>
<u>Liabilities</u>					
4. Liabilities Covered by Budgetary Resources:					
a. Transactions With Federal Entities:					
(1). Accounts Payable	\$1,070	--	\$1,147	\$144	\$2,361
(2). Interest Payable	0	--	0	0	0
(3). Debt	0	--	0	0	0
(4). Other Federal Liabilities	1,422	--	840	210	2,472

\*The FY 1996 Navy General Fund financial statements did not contain FY 1995 data because FY 1996 was the first year the Department of the Navy was required to prepare audited general fund financial statements.



# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1995 Statements of Financial Position (Page 3 of 4) (Millions)

Liabilities (Cont'd)	Army	Navy*	Air Force	Corps of Engineers	Total
b. Transactions With Non-Federal Entities:					
(1). Accounts Payable	\$1,308	--	\$3,990	\$ 413	\$ 5,711
(2). Accrued Payroll and Benefits:					
(a). Salaries and Wages	1,295	--	475	0	1,770
(b). Annual Accrued Leave	0	--	0	0	0
(c). Severance Pay and Separation Allowance	330	--	17	0	347
(3). Interest Payable	0	--	0	0	0
(4). Liabilities for Loan Guarantee	0	--	0	0	0
(5). Lease Liabilities	0	--	0	0	0
(6). Pensions/Other Actuarial Liabilities	0	--	0	0	0
(7). Other Non-Federal Liabilities	191	--	2	1,045	1,238
c. Total Liabilities Covered by Budgetary Resources	\$5,616	--	\$6,471	\$1,813	\$13,899
5. Liabilities Not Covered by Budgetary Resources:					
a. Transactions With Federal Entities:					
(1). Accounts Payable	\$ 0	--	\$ 0	\$ 0	\$ 0
(2). Debt	0	--	0	0	0
(3). Other Federal Liabilities	783	--	0	0	783
b. Transactions With Non-Federal Entities:					
(1). Accounts Payable	0	--	0	0	0
(2). Debt	0	--	0	0	0
(3). Lease Liabilities	0	--	0	0	0
(4). Pensions/Other Actuarial Liabilities	1,352	--	0	0	1,352
(5). Other Non-Federal Liabilities	2,736	--	1,813	16	4,565
c. Total Liabilities Not Covered by Budgetary Resources	\$ 4,872	--	\$1,813	\$ 16	\$ 6,701
6. Total Liabilities	\$10,488	--	\$8,284	\$1,829	\$20,600

\*The FY 1996 Navy General Fund financial statements did not contain FY 1995 data because FY 1996 was the first year the Department of the Navy was required to prepare audited general fund financial statements.

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Statement of Financial Position FY 1995 Data (Page 4 of 4) (Millions)

	<u>Net Position</u>	<u>Army</u>	<u>Navy</u> *	<u>Air Force</u>	<u>Corps of Engineers</u>	<u>Total</u>
7. Balances:						
a. Unexpended Appropriations		\$ 27,966	--	\$ 50,868	\$ 1,788	\$ 80,622
b. Invested Capital		183,559	--	266,434	38,456	488,449
c. Cumulative Results of Operations		4,578	--	0	2	4,580
d. Other		0	--	2	0	2
e. Future Funding Requirements		(4,872)	--	(1,774)	(16)	(6,662)
f. Total Net Position		\$211,232	--	\$315,529	\$40,230	\$566,991
8. Total Liabilities and Net Position		\$221,719	--	\$323,812	\$42,059	\$587,591

\*The FY 1996 Navy General Fund financial statements did not contain FY 1995 data because FY 1996 was the first year the Department of the Navy was required to prepare audited general fund financial statements.

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1995 Statements of Operations and Changes in Net Position (Page 1 of 2) (Millions)

	Revenues and Financing Sources	Army	Navy	Air Force	Corps of Engineers	Total
1. Appropriated Capital Used						
2. Revenues From Sale of Goods:						
a. To the Public						
b. Intragovernmental		495	--	191	14	700
3. Interest and Penalties, Non-Federal		5,467	--	3,371	2,781	11,619
4. Interest, Federal		0	--	0	0	0
5. Taxes		0	--	0	13	13
6. Other Revenues and Financing Sources		0	--	0	0	0
7. Less: Taxes and Receipts Transferred to Treasury or Other Agencies		912	--	37	117	1,066
8. Total Revenue and Financing Sources		<u>(321)</u>	<u>--</u>	<u>0</u>	<u>(98)</u>	<u>(419)</u>
		\$59,826	--	\$58,909	\$7,371	\$126,106

### Expenses

9. Program or Operating Expenses						
10. Cost of Goods or Services Sold:						
a. To the Public						
b. Intragovernmental		495	--	191	14	700
11. Depreciation		5,467	--	3,371	517	9,355
12. Bad Debts and Write-offs		0	--	0	181	181
13. Interest:		37	--	6	0	43
a. Federal Financing		0	--	0	0	0
b. Federal Securities		0	--	0	0	0
c. Other		1	--	3	0	4
14. Other Expenses		<u>358</u>	<u>--</u>	<u>873</u>	<u>0</u>	<u>1,231</u>
15. Total Expenses		\$60,834	--	\$59,075	\$7,368	\$127,277

\*The FY 1996 Navy General Fund financial statements did not contain FY 1995 data because FY 1996 was the first year the Department of the Navy was required to prepare audited general fund financial statements.

# Appendix D. Data From FY 1996 DoD General Fund Financial Statements

## Data From FY 1995 Statements of Operations and Changes in Net Position (Page 2 of 2) (Millions)

	<u>Army</u>	<u>Navy*</u>	<u>Air Force</u>	<u>Corps of Engineers</u>	<u>Total</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments	\$ (1,008)	--	\$ (165)	\$ 3	\$ (1,170)
17. Plus (Minus) Extraordinary Items	<u>0</u>	<u>--</u>	<u>0</u>	<u>0</u>	<u>0</u>
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expense	\$ (1,008)	--	\$ (165)	\$ 3	\$ (1,171)
19. Net Position, Beginning Balances	\$225,809	--	\$318,339	\$47,018	\$591,166
20. Adjustments	<u>3</u>	<u>--</u>	<u>0</u>	<u>0</u>	<u>3</u>
21. Net Position, Beginning Balances Restated	\$225,811	--	\$318,339	\$47,018	\$591,168
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$ (1,008)	--	\$ (165)	\$ 3	\$ (1,170)
23. Plus (Minus) Non Operating Changes	<u>(13,572)</u>	<u>--</u>	<u>(2,644)</u>	<u>(6,791)</u>	<u>(23,007)</u>
24. Net Position, Ending Balances	\$211,232	--	\$315,529	\$40,230	\$566,991

\*The FY 1996 Navy General Fund financial statements did not contain FY 1995 data because FY 1996 was the first year the Department of the Navy was required to prepare audited general fund financial statements.

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## **Appendix E. Key Accounting Requirements and Budget and Accounting Classification Code**

The DFAS established 13 key accounting requirements that all interim migratory accounting systems must implement as part of the General Fund Interim Migratory Accounting Strategy. The interim migratory accounting systems must also use the standard Budget and Accounting Classification Code.

### **Key Accounting Requirements**

**General Ledger Control and Financial Reporting.** A system must have general ledger control and maintain an appropriate account structure approved by DoD. The general ledger account structure must follow the general ledger accounts for assets, liabilities, equity, expenses, losses, gains, transfers in and out, and sources of financing. A double-entry set of accounts must be maintained to reflect budget authority, undelivered orders, obligations, expenditures, and other necessary accounts. The system must list control accounts and subsidiary general ledger accounts by titles and numbers, and must define each account. Subsidiary accounts must be reconciled to the control accounts at least monthly. The system must provide full financial disclosure, accountability, adequate financial information, and reports, both for management purposes and for reporting to OMB and the Department of the Treasury. General ledger control and financial reporting requirements apply to all DoD systems (including stock, industrial, and trust funds) except for pay delivery systems.

**Property and Inventory Accounting.** A system must account in quantitative and monetary terms for the procurement, receipt, issue, and control of property, plant, equipment, inventory, and material. Most acquisitions are recorded upon receipt of goods. Property and equipment with an acquisition cost or estimated acquisition cost equal to or exceeding the expense or investment threshold used by Congress must be capitalized and reported at cost. If the acquisition cost is unknown, the asset's fair value at the date of acquisition is estimated. The costs of additions, alterations, or replacements that extend the asset's useful life or service capacity are capitalized as fixed assets. Proper accounting controls must exist for Government-owned property held and used by contractors.

Inventory accounting must include accounting and controls over the acquisition and issuance of materials, the comparison of physical inventories and records, planning for procurement and utilization, and effective custody of materials. A

## Appendix E. Key Accounting Requirements and Budget Accounting Classification Code

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property management system must include accounting controls over inventory ledgers that identify the item and its location, quantity, acquisition date, cost, and other information. Subsidiary property records are reconciled periodically to general ledger accounts. Physical controls include assigning specific individuals to take inventory, placing physical safeguards on inventory, and periodically reconciling physical inventories to the accounting records.

**Accounting for Receivables Including Advances.** A system must account for all accounts receivable (any public indebtedness to the U.S. Government). Accounts receivable must be recorded accurately and promptly to provide timely and reliable financial information. Accounts receivable must be reduced on collection of funds or when offset by previously established collateral. Uncollectible amounts must be promptly written off and accounts receivable reduced accordingly. An allowance for uncollectible accounts and corresponding expenses must be established to provide full financial disclosure. All collections must be under general ledger accounting control. Cash must be deposited as quickly as possible and immediately recorded in the accounting records. Advances must be recorded as assets until goods or services are received or contract terms are met. Accounting controls must be maintained over advances made to employees, contractors, and all others. Advances must be promptly recorded and reconciled to general ledger control accounts.

**Cost Accounting.** Cost accounting must include accounting analysis and reporting on the costs of:

- o producing goods or services, or
- o operating programs, activities, functions, or organizational units.

Cost accounting must be provided in the accounting system if required for pricing decisions or productivity improvement decisions, measuring performance or comparing the efficiency of similar activities, and in industrial fund activities. For industrial fund activities, DoD requires that working capital funds provide capital for industrial and commercial activities. Industrial fund accounting must effectively control the cost of goods and services produced or furnished by industrial and commercial activities. Cost accounting must be used in job order costing and process costing and in determining operating results. The primary components of DoD costs are labor and materials. However, other costs, including depreciation, amortization, and unfunded liabilities (such as severance pay, labor, manufacturing overhead, and unallocated costs), should be accumulated in the accounting system when needed.

**Accrual Accounting.** Accrual accounting must recognize the accountable aspects of financial transactions or events as they occur. Transactions may be recorded in accounting records as they occur or may be adjusted to the accrual basis at the end of each month. Accrual accounting must be used to meet the

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specific needs of management and the Congress. Amounts of accrued expenditures and revenues must be recorded only when supported by prescribed documentary evidence on the basis of the initial documentation received. They are to be adjusted subsequently, if necessary, upon receipt of more accurate documentation. Examples of acceptable initial documentation include receiving reports, bills of lading, job sheets, certified unpaid invoices, and journal vouchers showing administrative estimates by responsible officials. This documentation must show transactions and performance that actually occur.

When liabilities are incurred as work is performed rather than when deliveries are made, accruals must be recorded from performance reports for the affected accounting period. Unpaid personnel compensation and benefits that have been earned as of the end of the pay year must be accrued in full or in part. For example, the accrual of annual leave is material and should be recognized annually in the financial statements. Accrued payroll for civilian and military salaries and wages, the employer's share of fringe benefits, allowances, salaries paid to foreign nationals, severance pay, unfunded annual leave, annual leave, and retirement must be recorded and reconciled with actual payroll.

**Military and Civilian Payroll Procedures.** Wherever feasible, DoD must use modern technology in its computer systems to process payroll transactions. The payroll system must interface with the accounting system that provides obligation and accrual data. The military and civilian payroll processes and procedures must be available to management, users, auditors, and evaluators.

Payroll systems must incorporate controls of both gross and net payroll amounts and payroll deductions to ensure smooth payroll processing and minimize incorrect payments. Procedures must ensure that only authorized deductions are made from pay and that all deductions are supported by proper documentation. Accounting entries for authorized deductions from pay must be verified. Timely, accurate, and complete individual and subsidiary records must be maintained for leave accounts, employee benefits, compensated personnel absences, general benefits (such as bonuses and cash allowances for quarters and subsistence), allotments by type and amount, and other balances. The general ledger and personnel records must be reconciled to payroll records. Unpaid personnel compensation and benefits that employees have earned at the end of the pay year, including annual leave, must be accrued in full. Accrued payroll must be reconciled with actual payroll.

Compensation and all employee benefit expenses (including Federal contributions) must be reported and disclosed separately in the financial statements. Automated controls must include predetermined limits on the computation of pay, accumulation and tests of zero balances, checks on the sequence of records, record counts, checks on the equality of general ledger and subsidiary ledger balances, and other tests of the validity of data or the accuracy



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of processing. Separation of duties is promoted by requiring that vouchers authorizing payment be precertified by an authorized employee who does not compute amounts payable, maintain the payroll records, or distribute the paychecks.

**System Controls.** System controls are divided into funds controls and internal controls. Details on funds controls and internal controls follow.

**Funds Controls.** A system must ensure that obligations and expenditures do not exceed the amounts appropriated, apportioned, reapportioned, allocated, and allotted. A system must have procedures for controls over errors to ensure that when errors are detected, corrections are made in a timely manner and reentered into the appropriate processing cycle, that corrections are made only once, and that each correction is validated. A system must show the appropriations and funds to be accounted for and must describe the accounting entity's process for distribution and control of funds. A system must have good funds control procedures to prevent the untimely liquidation of obligations, unmatched expenditures, and undistributed disbursements. Obligations must be recorded immediately. At the end of each fiscal year, funds control procedures must require a certification of data by a senior accounting official to ensure the validity of all obligations and unobligated balances. Administrative funds controls must ensure that funds are used economically, efficiently, and only for properly authorized purposes.

**Internal Controls.** A system must have adequate internal controls to prevent, detect, and correct errors and irregularities that may occur throughout the system. Separation of duties and responsibilities must be maintained for initiating, authorizing, processing, recording, and reviewing transactions. An automated system must have system security and integrity for authorized processing, including procedures and controls to protect hardware, software, and documentation from being damaged by accident, fire, flood, environmental hazards, and unauthorized access. A system must also have controls to prevent the unauthorized use of confidential information.

**Audit Trails.** Audit trails allow transactions to be traced through a system. Audit trails allow auditors or evaluators to ensure that all transactions are properly accumulated and correctly classified, coded, and recorded. Audit trails must allow transactions to be traced from initiation through processing to final reports. Good audit trails allow for the detection and tracing of rejected or suspended transactions, such as unmatched disbursements, so that the system can be corrected within a reasonable period. A fundamental requirement for any compliant accounting system is that the transactions for which the system accounts must be adequately supported with pertinent documents and source records. All transactions, including those that are computer-generated and computer-processed, must be traceable to individual source records. Audit trails allow a transaction to be traced from its source to the resulting record or report,

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and from the resulting record or report to the source. Items needed for audit trails include the type of transaction, the record or account involved, the amount, the transaction posting references (to reference the general ledger back to the subsidiary ledgers), and identification of the preparer and approver of the transaction. A key test of the adequacy of an audit trail is whether tracing the transaction forward from the source or back from the result will permit verification of the amount recorded or reported.

**Cash Procedures and Accounts Payable.** A system must be designed to ensure that payments are timely and are based on properly approved disbursement documents. Payment processes and procedures must comply with the Prompt Payment Act. Cash discounts should be taken when they are financially advantageous to DoD.

Accounts payable are liabilities that must be recorded when goods or services are received. The liability reported in the annual financial statements must reflect the amounts due for goods and services received. For items that a contractor manufactures to specifications, the accounting system must reflect the appropriate payable for each accounting period, based on requests for progress payments or on reasonable estimates of unbilled contractor performance. Accounts payable must be recorded in the proper accounting period. Accounts payable for services performed by employees, contractors, and others must be based on performance, as shown by payroll records, progress billings, or other data. In the absence of invoices or other available data, reasonable estimates of the costs of services performed before the end of a reporting period shall be made for financial reporting purposes. The system shall record the liability for goods and services purchased under a long-term contract in the period in which the goods or services are received or accepted.

**System Documentation.** An accounting system must have adequate documentation. The system documentation must address the interfaces between segments of the accounting system. The documentation of the accounting system must adequately address the functional user's accounting requirements. Such documentation must be available in user manuals and subsystem specifications.

User documentation must be comprehensive and must include descriptions of processes, flowcharts and narrative descriptions, diagrams, basic accounting entries (including adjusting and closing entries), illustrations or samples of source documents for input, and sample outputs and reports. Documentation must also cover the accounting system's internal controls and must meet DoD requirements for adequate and reasonable documentation. The documentation must be understandable by the computer personnel and system accountants who develop software or review process flow. It must demonstrate readily to users, auditors, and evaluators the system's processes and procedures. The documentation should facilitate maintenance on the systems and transaction

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testing. Good documentation permits transaction testing, which discloses whether valid transactions are processed properly and whether the system rejects invalid transactions. The documentation must be detailed enough that, when testing the system, a transaction can be followed from initial authorization through processing, posting to the accounts, and reporting. The documentation must state the mission, organization, description, objectives, financial management requirements, and boundaries of the system.

**System Operations.** Adequate organization and planning must exist regarding system operations to ensure that financial management and accounting objectives are met economically and efficiently. Financial systems must satisfy legal requirements, laws, regulations, accounting principles and standards, and related requirements as prescribed by the GAO, OMB, and DoD. Financial systems must contain all data required to achieve the purposes for which the systems were created and maintained, must be as simple as possible, and must be consistent with regulatory requirements and users' needs. The existing and planned hardware must be able to process current and projected transactions efficiently. Existing and planned hardware must interface effectively with other systems. A system must meet DoD requirements for documentation. The best acceptably priced current technology must be used. There must be detailed procedures for system operations and maintenance. Also, periodic system reviews must ensure that a system is functioning as intended, that required procedures are being followed, that any operating problems are promptly identified and corrected, and that enhancements are made as needed.

**Users' Information Needs.** Users' information needs and requirements for the quality, accuracy, timeliness, reliability, and responsiveness of a system must be adequate in response to program managers, financial managers, and other users. A system must satisfy users' reporting requirements, particularly for month-end reports. A system must also facilitate decisionmaking by management. In addition, if departures from other key accounting requirements adversely affect the users of the system, the materiality of these departures must be determined under this key accounting requirement.

**Budgetary Accounting.** A system must support formulation of the budget, support budget requests, and control budget execution. Programming, budgeting, accounting, reporting classifications, and coding structure must be uniform, consistent, and synchronized with the organizational structure so that activity reported by the accounting system can be compared with enacted budgets and can support future budget formulation. Presidential, Congressional, and OMB decisions must be recorded in the system, and the financial management data and results must be appropriately classified to track such decisions. The system must record budget resources at the appropriate level and must account for appropriations, reappropriations, apportionments, allocations, transfers, allotments of budget authority, customer orders, reimbursables, and other appropriate accounts prescribed by DoD.

## **Budget and Accounting Classification Code**

The development and use of a standard Budget and Accounting Classification Code was approved by the USD(C) in September 1994. The Budget and Accounting Classification Code will be a consistent structure for financial data and will ensure the reporting of comparable and consistent financial information. The Budget and Accounting Classification Code comprises fiduciary reporting information that identifies the Military Department, fiscal year, or appropriation involved; gives the data needed to ensure that applicable information can be identified and referenced to other related information, including the organization, document, or transaction to which the information applies; and includes various other financial information required for informational, reporting, and management purposes.

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## Appendix F. DoD General Fund Interim Migratory Accounting System Strategy

Previous audits identified deficiencies in DoD accounting systems as the major reason that accounting information on the DoD General Funds is unreliable and unsupported. As a result, auditors have been unable to render favorable audit opinions on the DoD General Fund financial statements. DFAS established the General Fund Interim Migratory Accounting Strategy (the Strategy) to decrease the number of accounting systems and correct deficiencies in those systems by the end of FY 1997. The long-term objective of DFAS is to implement a single, integrated DoD-wide General Fund accounting system after initially migrating to a smaller number of accounting systems. The IG, DoD, evaluated the DFAS Strategy. The audit reviewed the reasonableness of objectives, time frames, and costs of achieving auditable DoD General Fund financial statements. The results of the audit were published in IG, DoD, Report No. 96-180, "The General Fund Interim Migratory Accounting Strategy," June 26, 1996. The following summarizes the audit results, recommendations, management comments, and the IG, DoD, response to management comments.

**Audit Results.** The report concluded that the initial DFAS Strategy would have caused duplication of efforts through migration of multiple, Service-unique, accounting systems (migration is defined as modifying and using existing systems instead of replacing them.) The Service-unique approach used for the Strategy did not fully support DoD Corporate Information Management Initiatives and Defense Management Review Decision 910, and did not meet the requirements of OMB Circular No. A-127 and the Joint Financial Management Improvement Program. Also, the Strategy was unable to produce compliant accounting systems in the near future.

In FY 1995, DFAS made some progress in decreasing the number of accounting systems, which should reduce annual operating expenses in the future. However, DFAS had already spent \$36 million of Defense Business Operations Fund - Capital Funds in FY 1995, and could have inefficiently spent at least another \$187 million attempting to migrate to four noncompliant suites (consisting of nine separate systems) of Service-unique General Fund accounting systems. The initial Strategy involved a high risk that DFAS would not be able to make the four Service-unique suites of accounting systems compliant before the available Defense Business Operations Fund - Capital Funds were spent. There was also a risk that DoD would be unable to produce auditable DoD Consolidated Financial Statements from noncompliant systems for several more years.

The report concluded that a standard core General Fund accounting system

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could be selected for DoD-wide use and implemented within approximately the same time frames that the multiple, Service-unique approaches could eventually require. The personnel, funds, and time needed to eventually complete the Strategy would be better used if directed at achieving the goal of a single, DoD-wide compliant general fund accounting system instead of redesigning and modifying multiple, Service-unique, noncompliant accounting systems. The report concluded that canceling the Strategy would prevent DoD from spending the personnel resources, time, and funds needed to correct multiple accounting systems, of which only one will eventually be selected for long-term use throughout DoD. Because of the nature of the finding and recommendations, the report was discussed with the USD(C); the Director, DFAS; and senior financial managers of the Army, the Navy, the Air Force, and the Marine Corps. Because the USD(C) may encounter significant obstacles in convincing all of the Services to convert in the future to a single DoD-wide system, continuing to invest in multiple redundant systems, was unlikely to produce sufficient progress. A more aggressive approach was needed.

**Summary of Recommendations.** The reports recommended that the Strategy be canceled and that a single DoD-wide system approach be adopted for General Fund accounting. The report also recommended that a centralized program management structure be established to direct the select and implementation of the DoD-wide accounting system.

**Management Comments.** The Deputy Chief Financial Officer, DoD, stated that the recommendations to cancel the Strategy and implement a single-system approach have merit. However, he nonconcurred, stating that the current Strategy is more cost-effective, will provide benefits sooner, will require less time, and is less risky. The Deputy Chief Financial Officer, DoD, partially concurred with the recommendation to establish a program management structure to oversee the development of accounting systems. The Director, DFAS, issued a memorandum on April 17, 1996, announcing the establishment of a program management office. However, that office will not focus on a single-system approach.

**Audit Response.** The report stated that the management comments are partially responsive. Although the Deputy Chief Financial Officer, DoD, disagreed with the recommendations to cancel the current Strategy and implement a single-system approach, the USD(C) and DFAS have made significant progress towards a single DoD-wide system for general fund accounting. For example, in May 1996, the USD(C) altered the current Strategy by designating the Corps of Engineers Financial Management System (CEFMS) as the migratory system for Army General Fund accounting. In May 1996, the DFAS designated CEFMS for Air Force General Fund accounting. These two management actions redirected \$107 million of the \$187 million designated for consolidating Service-unique systems into a single system.

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House Committee on National Security

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